

SGI CANADA ANNUAL REPORT



VISION

To be a company where every customer, employee, owner and business partner across Canada is proud to do business and work with us.

VALUES

Integrity

- Leading by example and being accountable for our actions.
- Following through on commitments.
- Providing honest, timely feedback.
- Explaining why a decision is taken.
- Giving credit to those who contribute to our success.
- Providing information openly without breaching confidentiality.
- Maintaining the privacy of personal data.

Caring

- Acting in a manner that preserves the dignity of others.
- Valuing and actively supporting diversity.
- Acknowledging and validating the feelings of others.
- Actively seeking and listening to differing points of view.
- Responding to individual differences.

Innovation

- Seeking solutions that recognize individual circumstances.
- Challenging the status quo for positive change.
- Pursuing alternatives which lead to business improvements.
- Continuously working to revitalize products and services.
- Preparing for the needs of the future.

ABOUT SGI CANADA

SGI CANADA is fully competitive, selling property and casualty insurance products such as home, farm, business and auto in seven Canadian provinces. It operates as SGI CANADA in Saskatchewan, SGI CANADA Insurance Services Ltd. in Manitoba and Alberta, the Coachman Insurance Company in Ontario and as a major partner in the Insurance Company of Prince Edward Island in Nova Scotia, New Brunswick and Prince Edward Island.

Visit SGI CANADA at www.sgicanada.ca.

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LETTER OF *transmittal*

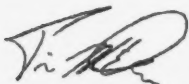
Regina, Saskatchewan
March, 2011

To His Honour,
The Honourable Dr. Gordon L. Barnhart, S.O.M., PhD
Lieutenant Governor of the Province of Saskatchewan

Your Honour,

I am pleased to submit herewith the annual report of SGI CANADA for the year ended December 31, 2010, including the financial statements in the form required by the Treasury Board and in accordance with *The Saskatchewan Government Insurance Act*.

Respectfully submitted,



Honourable Tim McMillan
Minister Responsible for Saskatchewan Government Insurance

MINISTER'S *message*

Natural disasters can strike without warning and, in 2010, many residents in the province experienced the wrath of Prairie storms. It was gratifying to see first hand how quickly and effectively SGI CANADA staff and brokers stepped in to help customers affected by weather.

Despite the disasters experienced by numerous SGI CANADA customers, the Corporation was once again profitable in 2010. My appreciation and congratulations go out to management and staff at SGI CANADA for another great year.

I would also like to thank the Board of Directors for their oversight and input into the operations and direction of SGI CANADA. Your dedication to the people of Saskatchewan is appreciated.

The Government of Saskatchewan is committed to financial sustainability and efficiency within the province's Crown corporations. My colleagues and I have directed SGI CANADA, and all Crowns, to operate in the most efficient and effective manner possible so the Saskatchewan people can be assured they're getting solid economic value from their Crowns.

Growth in SGI CANADA's out-of-province operations, as acknowledged within the provisions provided under the Saskatchewan First investment policy, have balanced the need to geographically spread the Corporation's risk – a need that is evident in years like 2010 – with the needs and best interests of the people of this province.

I'm excited to see SGI CANADA's new strategic direction taking these values to heart. As the insurance industry continues to evolve, I'm confident the Corporation is well placed to adapt and succeed well into the future.

I am proud to present the 2010 SGI CANADA Annual Report.



Honourable Tim McMillan

Minister Responsible for Saskatchewan Government Insurance

CHAIR'S message

SGI CANADA endured significant challenges in 2010 and the Board of Directors is very pleased with the performance of staff and brokers in keeping the Corporation financially healthy and relevant in the communities in which we do business.

Being able to weather the wild summer storms that pummelled Saskatchewan, and much of Western Canada, shows the strength in leadership the Corporation has at all levels, and the dedication to service each and every employee brings to the workplace. It also showcased how the close relationship we have with our brokers promotes customer service without compromising efficiency and productivity.

The Board of Directors recognizes and appreciates the hard work of employees and brokers during what turned out to be a near-record year for storm claims.

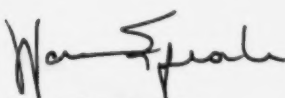
In 2010 SGI CANADA, after extensive input from stakeholders, adopted a new strategic plan setting out the future path SGI CANADA will take.

That new strategic direction, which hinges on innovation and efficiency as well as understanding and meeting the needs of customers, will help SGI CANADA adapt to changes that are currently reshaping the insurance industry in North America. To stay successful, we must anticipate and respond to these changes. This may mean we have to be prepared to enhance the way we do business and consider new approaches to our business methods.

Change was also felt at the Board level in 2010 as we saw the departure of long-time director Bill Heidt. I would like to thank him for his many years of service as he has long been a familiar face at SGI. He has been associated with the company since the mid-1970s, including serving as president for nearly three years and serving on the Board of Directors from 1997 to 2010.

Finally, I would like to send a warm welcome back to Doug Richardson who rejoined the Board of Directors in 2010.

On behalf of the Board of Directors, I thank our management team, and all staff and brokers, for working to make SGI CANADA a strong and vibrant company. Well done.



Warren Sproule, Q.C.

Chair SGI CANADA Board of Directors



PRESIDENT'S message

In the insurance industry, storms happen. It's a fact of life; a part of doing business. You plan for it as well as you can and hope things are never as bad as you anticipate.

But in 2010, not only did we see the bad, it happened more than once and in more than one location. Fortunately, sound financial management and dedicated employees helped us weather the storms, manage the workload and, in the end, make a profit. Not bad for a year of near-record storm claims – \$61.5 million in total.

Over the past year, I learned how great our team really is. Their response to the storms, on the front lines as well as in everyday operations, was impressive. In a year of such disaster, it made me very proud to be associated with the organization.

Looking back, April 2010 probably should have been a warning to us that weather was going to be a significant challenge. A massive windstorm – responsible for overturning semi-trailers on highways – damaged some of the exterior of our head office building in Regina, prompting an evacuation of employees and disrupting business operations. Fortunately, in the end, everything was fine, but it foreshadowed the challenges we'd face.

In my opinion, SGI CANADA faced those challenges superbly. We answered all calls to action quickly and showed in no uncertain terms we're here for customers and brokers.

We heard praise from customers about the speed and quality of our response to the storms. Our team of "storm chasers" – those adjusters who often give up their summers and time with family to help with an influx of claims – spent more hours than usual on the road so they could be on the scene within days, and in some cases hours, after disaster struck. That's what a good insurance company should do for its customers – anticipate their needs and act upon them.

Not only are we here for customers, we're here for each other.

When our adjusters answered the call and rushed off to respond to disaster, the employees who remained behind continued to deliver fast, friendly service to customers and brokers, despite an increased workload. If these dedicated, sometimes underappreciated, employees didn't step up the way they did, our entire response mechanism would have broken down.

Of course, almost everything we do is also supported by our broker network. It was these independent business owners and their staff who organized things at the local level, made first contact with customers and helped deliver the message that SGI CANADA is here for them. I cannot thank our broker network enough for a job well done.

Our response to the storms from a customer and broker service perspective is just one side of the coin. Despite the near-record number of storm claims in 2010 and compared to a nearly storm-free 2009, SGI CANADA still made a profit of \$48.4 million. This was in part due to continued, sound financial management – including our reinsurance program – that helped mitigate the impact of storm claims. The 2010 profit was also due to better than expected investment returns.

Continued spread of risk out of province was once again an important factor in our financial health. Out-of-province growth was strong in most markets and proof that the provisions related to our business in the Saskatchewan First investment policy are working as intended and supporting our success. The results are encouraging, especially in Ontario where we saw 53% growth with net premiums written of \$45.2 million, and Alberta where there was 24% growth with net premiums written of \$31.2 million.

If dealing with wild weather and our financial health weren't enough, the Corporation was at a crossroad in 2010. We had completed, or were in the process of completing, most of the objectives as set out in the strategic plan I inherited in 2009, meaning it was time to consider the future direction of the company and develop a new corporate plan.

However, a successful corporate plan can't be developed by the president alone. In fact, we took the approach of involving all stakeholders in the process, especially employees. It was important for employees to be involved in setting the direction of the Corporation; to make it their corporate plan. We solicited their input and advice and incorporated their thoughts with those of the management team, as well as the input we received from our Board of Directors and other stakeholders.

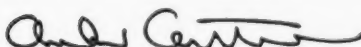
What we ended up with was an all-encompassing corporate plan that looked to our future, while building on past accomplishments and present strengths. The plan's foundation is a new vision statement that essentially says we want customers, staff, brokers and shareholders to know we'll strive to benefit them in everything we do, and we'll make them proud to work for, or do business with, us.

Our plan focuses on efficiency and innovation, as well as leveraging technology and information. To do that, we're developing a business intelligence system that will help us get more out of the information we already collect from brokers and customers, and allow us to take a more sophisticated approach to our business. We also understand the need to keep building on the successes we've had with eServices for our brokers and to continue to develop our SGI CANADA broker portal, as well as the electronic interface within the broker management systems.

As this new plan becomes a reality over the next few years, it will help ensure we're well equipped to handle your needs well into the future – no matter what the weather might bring.

We're here for you.

Sincerely,



Andrew R. Cartmell

WE'RE HERE FOR customers

For any business to be successful, customer service needs to be a priority.

Customer service is about more than being pleasant at the time of a sale. When SGI CANADA – and our broker partners – take our customers' money in return for an insurance policy, we're promising to be there for them when disaster strikes.

In 2010, we had many opportunities to honour this contract with customers because disaster did strike early and often. Our strong partnership with brokers allowed us to reach out to customers immediately with empathy, understanding and hope. We followed that up with quick service, support and ongoing compassion; they knew we were there for them when they need us.

That was the most important part of our response to the summer storms. Obviously some customers were in a crisis. For some of them, a flooded basement or damaged roof was the most important thing going on in their lives. For our adjusters, our customers' crisis meant many claims in front of them at any one time. The challenge was making sure each customer felt their claim was the most important thing in front of us at that moment.

SGI CANADA staff and brokers set the bar high early in the summer storm season with our response to flooding in Maple Creek in June.

The small, southwest Saskatchewan community took the brunt of flash floods in the Cypress Hills and many of our Maple Creek customers were affected. It was a situation where, even with extra manpower and superb coordination, delays would likely have been accepted by customers. Instead, we and local-area brokers were quick to respond – in some cases even with a cheque in hand on a first visit – making sure customers were looked after.

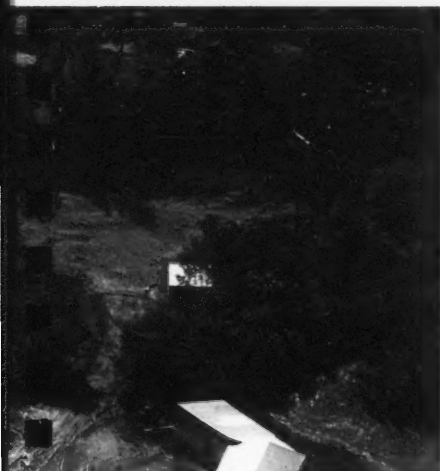
Then a few weeks later, some of the same employees who dropped everything to help in Maple Creek went to Yorkton to help with massive flooding there. Again, delays would have been expected, but instead we worked hard to get the job done. Once again, customers were happy with our speedy response.

In the end, SGI CANADA adjusters fanned out across the Prairies to support brokers in providing top-notch customer service all year long. And customers told us they really appreciated it.

We're here for customers.



Photo courtesy of Regina Leader-Post



On June 19, 2010, the residents of Maple Creek and area faced a deluge of rain and flood waters of epic proportions. That included Jack and Diane Swanson.

They thought they were prepared for a flood. Many of their belongings were still in boxes since they had only recently moved to town, so getting them to high ground wasn't a problem. But as Jack watched the disaster approach from his back deck he was surprised to see a wave of water at least three feet tall coming down the alley.

After the flood the Swansons were left with a foot of water in their basement from a sewer backup and a failed sump pump. Jack immediately began pumping water out of their basement. But what surprised him the most was that his broker and an SGI CANADA adjuster showed up just hours later, even though he had just called in his claim.

"He was Johnny on the spot," he said of his broker from Blytheman Agencies, who had arranged for adjusters to come to the area to help. "They were in the water with me! I thought that was pretty decent."

Jack was also impressed with the speed at which reimbursements for their expenses came from SGI CANADA, always within 10 days.

Thanks to Jack's hard work, a quick-thinking broker and SGI CANADA's immediate response to disaster, the Swansons's house was repaired before Christmas, they've unpacked their boxes and its beginning to finally feel like home.

WE'RE HERE FOR *brokers*

SGI CANADA's success is directly tied to the success of the brokers we do business with. That is a fact.

They are our customer service representatives and they are our product salespeople. They are our business partners. They are our customers. When they speak, we listen. We keep in mind that virtually everything we do, either directly or indirectly, affects brokers and how we support them.

In 2010, we found a number of ways to support brokers with technology, business efficiencies, insurance products and resources.

By working in partnership with brokers, we're supporting them in providing superior customer service, product support and peace of mind.

It's important when a severe storm strikes to be in a position to respond quickly and effectively, but as important as that is, it's only a small part of the support we provide to brokers. By striving to provide technological and process solutions that work for brokers, rather than adding to or hindering workflow, we create a more successful and efficient partnership and support for all brokers 365 days of the year.

To that end, we continue to implement and improve eServices products for brokers, which facilitates business growth and gives them tools to use so they can free up time to focus on their customers and their business.

In 2010, we launched SGI CANADA-specific Policy Works software that helps brokers more efficiently communicate with us. Brokers are now able to send submissions to, and receive quotations from, SGI CANADA's system directly – it's a first-ever, straight-through processing of commercial lines data from the Policy Works application to our GIS underwriting system. Plans are already underway to enhance this technology in 2011 to include the ability for real-time rating, submission of new applications and renewal quotes.

SGI CANADA also began implementation of a business intelligence program, which will allow the company to use the data collected by our broker force more efficiently to better understand customers and their needs. These are just some of the ways we're making sure we're here for brokers, supporting them through technology.

Finally, we must continue to adapt to change and anticipate trends or risk being left behind. SGI CANADA's five-year corporate plan looks to the future and how our relationship with brokers might grow as we adapt to, and anticipate, change in our partnership and the industry.

This renewed focus on our broker relationship, and how we'll support brokers going forward, can only serve to help us, and them, be more successful now and into the future.

We're here for brokers.



Photo courtesy of Regina Leader-Post



Mike Hordichuk's brokerage in Yorkton, Western Financial Group, had people lined up out the door and had their phones ringing non-stop for nearly three weeks in July after heavy rains caused extreme flooding in the city.

"This was the worst claims situation we've encountered," said Hordichuk. "We heard countless stories of basements filling up to the rafters. It flooded the main levels of homes. It was that bad."

His office dealt with 650 sewer backup claims during July and their day-to-day operations ground to a halt. It put a lot of stress on his staff, but he was very happy with how they pulled together to get the job done.

But they weren't alone. Brokerages across the province dealt with near-record storm claims in 2010. Hordichuk's office is a good example of how brokerages provided great service to our customers.

"This is what our clients paid for," he said. "They see the results from their premiums. It was a good chance for us to provide customer service."

Surprisingly, he had very few upset customers. The majority were fully aware of the situation and were understanding, especially since the province declared the city a disaster area.

Hordichuk said things went so smoothly because of excellent communication between the broker, customer and adjuster – a process that was set up early in the crisis.

"SGI CANADA organized a Catastrophic Loss Team and had a phone and a fax line that streamlined the process," he said. "Having one centralized area made it far easier for us on the broker side. They were very helpful."

WE'RE HERE FOR *the team*

Our dedicated employees deserve much of the credit for SGI CANADA's success in 2010.

It was a busy year. Summer storms put a lot of pressure on staff to provide service to customers and brokers in a timely, efficient and professional manner. And they did that despite having to deal with a near-record number of claims – and in some cases while being victims of disaster themselves.

Our employee response was excellent.

While adjusters volunteered their time to travel across the Prairies to respond to a multitude of claims over the summer, the co-workers they left behind stepped up admirably. Everyday business, as well as work that got left behind, still got done and, in most cases, so seamlessly that customers and brokers wouldn't have noticed we were operating with fewer people than usual.

Employees were here for each other and we were here for them.

An example of that in 2010 was in Yorkton.

The Yorkton area experienced flooding in early July that many in the area hadn't experienced before. Many homes and businesses in the city experienced some sort of damage from the severe weather.

Even SGI's newly renovated Yorkton Claims Centre couldn't escape the damage. But quick thinking had the claims centre staff relocated to higher ground at the Yorkton Salvage facility within two days, with phones at the ready. Salvage staff made room for their co-workers immediately, welcoming them warmly.

In the midst of all this, many staff at both Yorkton locations – among others elsewhere – also had

to deal with disasters at their own homes, finding time to do so in and around helping their affected neighbours and colleagues. It's not easy putting your own crisis aside so you can help a customer with their situation. Our staff in Yorkton, and other affected areas, deserve to be commended for their sacrifice and professionalism.

We're here for our employees in other ways, too. Once again in 2010 we were named one of Canada's Top Employers – marking the fourth consecutive year we've been bestowed this honour – for the health, wellness and financial benefits we offer employees. Other accolades we received, such as Top Diversity Employer and Top Employer for Canadians over 40, show how we go above and beyond to be here for all employees by providing a safe, prosperous and engaging workplace.

We also listen to employees.

In 2010, we involved staff in the development of a new corporate plan. We surveyed staff for their input. We held online chats with the president, in real time, so employees could have open and frank discussions regarding the future direction of the Corporation. We took this input and incorporated it into the new corporate plan.

As our new vision statement suggests, we want our employees to be proud to work for us – and, after a summer like 2010, hopefully pride is the first thing that comes to mind when they think about SGI CANADA.

Proud to be an employee. Proud to be part of the Corporation. Proud of the work they did in 2010.

And they should be. We're proud of them.

We're here for them and we know they're here for each other.



Karen Klein loves her job.

An adjuster at the Swift Current Claims Centre, Klein is one of a small group of SGI CANADA employees who spring to action in the summer when storms cause chaos for policy holders. These "storm chasers" are a tight-knit group who travel all over the province when needed to help each other through busy claim situations.

"You can't control Mother Nature," she said. "You can only respond."

Klein said that she was really proud of SGI CANADA's response to the storms in 2010. She was impressed with how employees stepped up to help one another and how well the broker network reacted to the crisis.

But her motivation for putting her job first is about more than an honest day's work or the feeling of accomplishment.

"I go for the customer," said Klein. "The customers are in an emergency situation and the sooner that we can get there and get them looked after the better it works out for all of us."

She emphasized that a good working relationship with brokers was a very important part of our success. This cooperation helps brokers and adjusters deal with disasters in an orderly and timely fashion.

But it's the trust factor brokers build with customers that can really help. Brokers are the point of first contact for customers; they can answer questions or explain things to clients and be easier to reach during a crisis than an adjuster in the field. That's why they're invaluable to adjusters like Klein in bridging the gap with customers.

"The brokers and the adjusters all have to work together to make things work smoothly and make our customers happy," she said. "Anywhere I've gone the brokers have been wonderful."

WE'RE HERE TO BE *good corporate citizens*

Corporate Social Responsibility (CSR) might sound like a buzz phrase to many, and maybe it is, but we still take it very seriously.

Ultimately, CSR is about a commitment to operate in an economically, socially and environmentally sustainable way. It's about being a good corporate citizen.

No matter what it's called, it incorporates much of what SGI CANADA has been doing for years – like increasing our impact on and support in our communities, remaining sustainable, being environmentally friendly, valuing employees and having good corporate governance. Any good company needs to think about these things to be successful.

SGI CANADA wants to continue to have a positive impact on the communities in which it does business.

To do that the Corporation must give more thought to business decisions than just profitability and meeting business objectives. These are still important, but we must consider how our decisions affect our employees, our community and our environment. Sometimes the benefits aren't measurable by financial impact, but rather by social impact.

We focus on four main pillars: community, employees, environment and corporate governance. While these are separate areas of focus, together they support our corporate values; integrity, caring and innovation. Applying CSR standards to what we do and the decisions we make will ensure we take responsibility for the impact of those decisions and actions.

The following is a breakdown of some of what we did in 2010 in each of our four main CSR areas.

We're here for our communities

- As part of a multi-year commitment to Football Saskatchewan, SGI CANADA provided \$100,000 for the promotion of minor football in Saskatchewan.
 - Significant funding went to programs in Regina and Estevan. In Estevan, if the funding had not been made available, the program would not have been possible.
 - The remaining funding was distributed to minor football organizations across the province in order to promote and further develop the sport for boys and girls in the province.
- SGI CANADA partnered with the Regina Symphony Orchestra, Canada's longest continuously performing orchestra, in two projects in 2010.
 - Symphony Under the Sky: SGI CANADA was the presenting sponsor at the 14th annual outdoor summertime orchestra event, which is free to everyone who wants to enjoy the symphony experience.
 - Symphony Singing Star: SGI CANADA was a major sponsor of a competition to find a talented individual to sing with the orchestra.







- For the sixth consecutive season, we supported junior golf in the province through the 2010 SGI CANADA Junior Order of Merit Tour Championship in partnership with the Saskatchewan Golf Association.
 - Over 2,000 youth aged 10 to 18 participated in the tour that ran between May and August. Over 40 tournaments were held across the province to determine the 120 finalists who competed in the two-day tour championship in late August.
- SGI's Community Action Team (CAT) made financial contributions to a number of organizations, including \$15,000 for toys and electronics for children's wards in hospitals across the province.
- We supported the Virtual Y program offered through the Regina YMCA to bring after school programs to inner-city youth in Regina.
- In 2010, SGI CANADA provided a total of more than \$400,000 in funding to organizations in 49 communities.

We're here for our employees

- SGI CANADA has a commitment to diversity, work-life balance, wellness and community involvement for our employees. We continue to be recognized for this.
 - For the fourth straight year SGI CANADA was named one of Canada's Top 100 Employers.
 - For the fifth straight year SGI CANADA was named one of Saskatchewan's Top 20 Employers.
 - For the fourth straight year SGI CANADA was named one of Canada's Best Diversity Employers.
 - For the second time SGI CANADA was named one of Canada's Top Family Friendly Employers.
 - For the very first time SGI CANADA was named a Top Employer for Workers Over 40.
- Employee engagement is a priority at SGI CANADA. Each year we conduct surveys to measure the engagement of our staff and our progress in delivering on our corporate plan.
- We involved employees in developing our new corporate plan.
- We offer training and development opportunities, classes and support for work-related education opportunities, including university courses.
- The President's Youth Advisory Council organizes events to help engage employees.
- The Aboriginal Advisory Network works to support, encourage, engage and increase the visibility of Aboriginal employees.

We're here for our environment

- SGI CANADA is committed to considering the environmental impact of its buildings, facilities and equipment. In 2010 we updated the Regina East Claims Centre and the North Battleford Claims Centre with T8 lighting, high efficiency boilers, furnaces and heat pumps, water conserving bathroom fixtures and motion detector lighting. We also replaced furnaces and air conditioning units at the Weyburn Claims Centre with more efficient models.
- We have an employee-driven committee that provides education, awareness and initiatives for environmental issues. One of the Green Committee's major 2010 projects was a campaign to discourage plastic bag use at head office by offering a reusable bag borrowing service.
- The Green Committee also encouraged staff who didn't need a new phonebook, or could use an electronic version, not to request a new phonebook in 2010. In total almost 1,000 fewer phonebooks were requested over 2009.

We're here to provide good corporate governance

- SGI CANADA provides frequent and transparent financial reporting.
- Early in 2010, SGI CANADA's Board of Directors created a new risk management subcommittee to provide oversight of risk management practices. They approved a policy to establish the context for SGI CANADA to manage key business risks on an enterprise basis, and set out the objectives, governance structure and definitions required to support risk management. The process to assess and review major corporate risks was also expanded and formalized to provide a more objective assessment of SGI CANADA's risks and its efforts to mitigate those risks.
- SGI CANADA has a detailed code of conduct and ethics that all employees must comply with to ensure they conduct themselves with thought to the Corporation's reputation and the rights of their co-workers and the public.
- We place an increased importance on privacy strategies and safeguards for the personal information we collect and access in order to do business and serve the public. We continually review our policies to make sure we are in compliance with federal and provincial laws and as a sound business practice.
- SGI CANADA's Board of Directors reviewed and updated its governance framework in 2010.

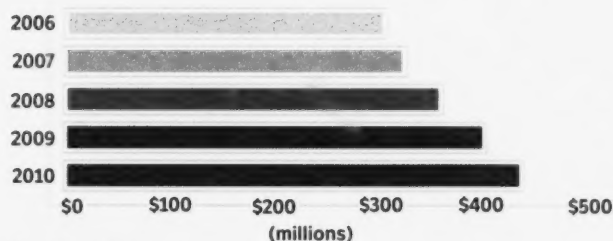
FIVE-YEAR review

SGI CANADA Consolidated

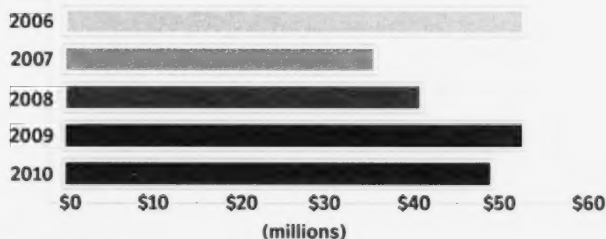
Millions of dollars except pre-tax return on equity and ratios.

	2006	2007	2008	2009	2010
Net premiums written	301.2	320.7	353.4	393.9	430.6
Net income	52.1	35.1	40.4	52.4	48.4
Total assets	662.5	707.2	717.3	827.4	872.8
Province of Saskatchewan's equity	161.6	189.0	177.8	226.3	238.3
Pre-tax return on equity	35%	22%	23%	27%	25%
Loss ratio	54%	61%	55%	51%	59%
Expense ratio	37%	38%	40%	40%	38%
Combined ratio	91%	99%	95%	91%	97%

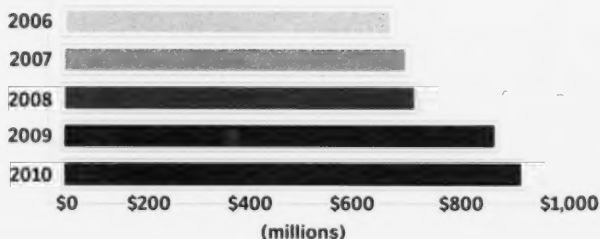
Net Premiums Written



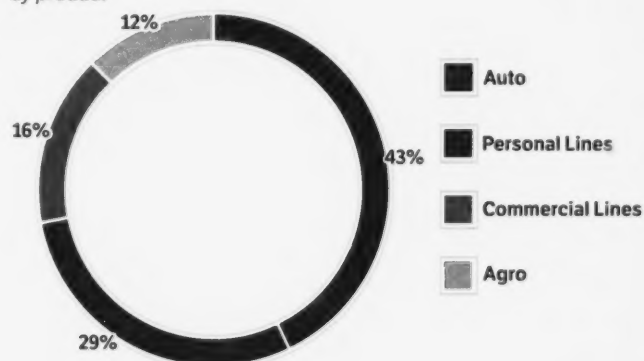
Net Income



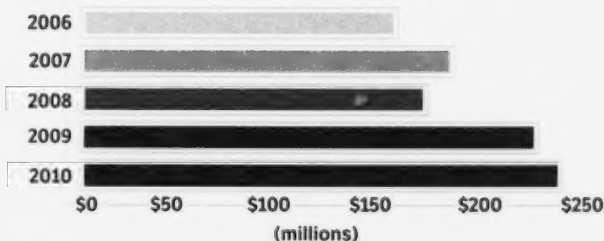
Total Assets



2010 Net Premiums Written by product



Province of Saskatchewan's Equity



MANAGEMENT'S DISCUSSION AND analysis

The following management's discussion and analysis (MD&A) is the responsibility of management and reflects events known to management to February 23, 2011. The Board of Directors carries out its responsibility for review of this disclosure principally through its Audit and Finance Committee, comprised exclusively of independent directors. The Audit and Finance Committee's mandate can be found on the Corporation's website at www.sgi.sk.ca under About SGI. The Board of Directors approved this MD&A at its meeting on February 24, 2011, after a recommendation to approve was put forth by the Audit and Finance Committee.

Overview

The MD&A is structured to provide users of SGI CANADA's financial statements with insight into SGI CANADA (denoted as the Corporation) and the industry in which it operates. This section contains discussion on its strategies and its capability to execute the strategies, key performance drivers, financial capital, 2010 financial results, risk management and an outlook for 2011. Information contained in the MD&A should be read in conjunction with the consolidated financial statements and the notes to the consolidated financial statements, along with other sections in this annual report. All dollar amounts are in Canadian dollars.

Caution Regarding Forward-Looking Statements

Forward-looking statements include, among others, statements regarding SGI CANADA's objectives, strategies and capabilities to achieve them. Forward-looking statements are based on estimations and assumptions made by the Corporation in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. SGI CANADA deems the assumptions built into the forward-looking statements are plausible, however, all factors should be considered carefully when making decisions with respect to the Corporation. Undue reliance should not be placed on the Corporation's forward-looking statements, which only apply as of the date of this MD&A document. The Corporation does not undertake to update any forward-looking statements that may be made from time to time by or on its behalf.

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Where SGI CANADA Came From

In 1944, the Government of Saskatchewan passed *The Saskatchewan Government Insurance Act*, creating the provincial Crown corporation that is known today as SGI. SGI was created to rectify problems in the Saskatchewan insurance industry. At that point in time, poor economic conditions had driven many insurers out of the province.

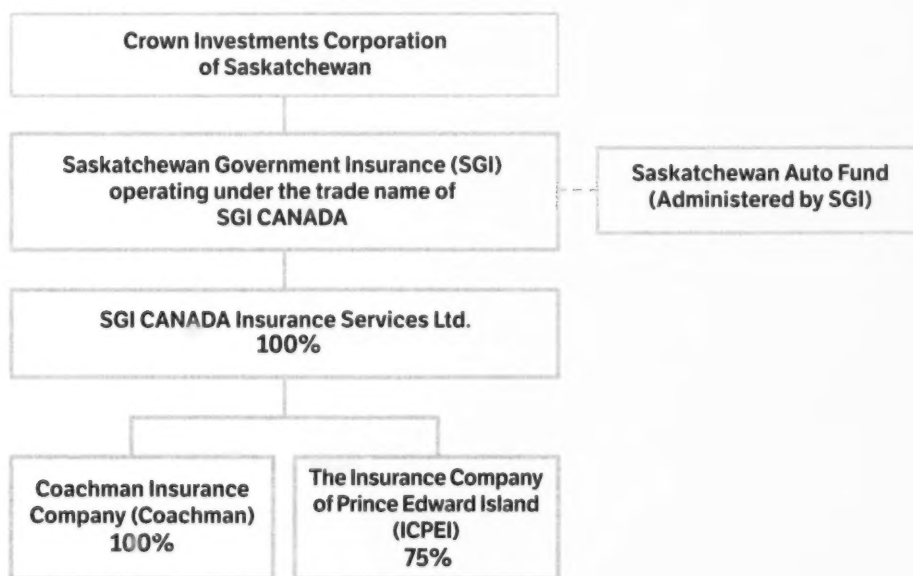
SGI's mandate since its inception has been to provide comprehensive, affordable insurance protection to the people of Saskatchewan. In 1980, legislated changes to *The Saskatchewan Government Insurance Act, 1980* and *The Automobile Accident Insurance Act* distinguished between the compulsory vehicle insurance program for the province (the Saskatchewan Auto Fund) and the competitive insurer offering additional property and casualty products (SGI CANADA).

SGI CANADA is the trade name that SGI operates under to provide competitive, quality property and casualty (P&C) insurance products in Saskatchewan. P&C product offerings include policies for automobile, home, farm and commercial enterprises. In addition, SGI CANADA, through its subsidiary SGI CANADA Insurance Services Ltd., offers similar products in six other provinces across Canada.

The SGI CANADA annual and quarterly reports are available on its website at www.sgicanada.ca.

The operations in provinces outside Saskatchewan are important to the Corporation in order to spread risk, maintain and create jobs in Saskatchewan, and increase economic returns for SGI CANADA's shareholder, Crown Investments Corporation of Saskatchewan (CIC). In 1993, SGI CANADA Insurance Services Ltd. began offering P&C insurance in Manitoba. In 2001, SGI CANADA Insurance Services Ltd. became the majority shareholder (75%) of the Insurance Company of Prince Edward Island (ICPEI) and also purchased 100% of the shares of Coachman Insurance Company (Coachman). Coachman operates in Ontario while ICPEI operates in Prince Edward Island, New Brunswick and Nova Scotia. SGI CANADA Insurance Services Ltd. has also been operating in Alberta since 2006.

The Corporation is a provincial Crown corporation wholly owned by CIC. The following organizational chart illustrates the Corporation's ownership structure:



As a provincial Crown corporation, SGI CANADA is not subject to federal or provincial income taxes. Its subsidiaries are not provincial Crown corporations, thus they are subject to federal and provincial income taxes. The consolidated financial results of SGI CANADA are included in CIC's consolidated financial statements.

At December 31, 2010, the Corporation employed over 1,800 people, including those employees who work directly for the Saskatchewan Auto Fund. SGI CANADA operates with a network of 256 independent brokers throughout Saskatchewan, as well as 249 brokers operating in Manitoba, Alberta, Ontario, Prince Edward Island, New Brunswick and Nova Scotia. SGI CANADA's corporate head office is located in Regina, Saskatchewan.

The Property and Casualty Insurance Business Environment¹

Canada's highly competitive P&C industry consists of approximately 230 private and government-owned insurers. The P&C industry covers all types of insurance other than life and health insurance. The automobile insurance sector continues to be the largest contributor to gross premium volume at half of all premiums. Property insurance ranks second, followed by liability insurance and other insurance.

Insurance is a mechanism for spreading risk, for sharing the losses of the few among the many. Insurance makes the life of an individual or business enterprise more stable by allowing people and businesses to engage in many ventures without having to set aside reserves to meet the financial requirements that may arise from certain types of losses. Insurance also facilitates the granting of credit by protecting the investments of both lenders and borrowers.

Insurance can be considered a large pool into which policyholders place their premiums.² This pool provides for payment of losses suffered by those who have claims and for the cost of running the insurance company. Sometimes, total premiums are insufficient to pay claims and operating expenses, however, insurers also use investment earnings to pay claims and keep premiums lower than they might otherwise be.

P&C insurance companies are supervised and regulated at the federal and provincial levels. The federal regulator, the Office of the Superintendent of Financial Institutions, is responsible for the solvency and stability of P&C insurance companies registered federally. Provincial authorities supervise the terms and conditions of insurance contracts and the licensing of companies, agents, brokers and adjusters, along with monitoring the solvency and stability of provincially registered companies. SGI CANADA's subsidiaries are provincially regulated insurance companies.

Since automobile insurance is compulsory in Canada, unlike home and business insurance, it is the most regulated area that P&C companies operate within. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. The Corporation's automobile premiums are subject to rate regulation in Alberta, Ontario, Prince Edward Island, New Brunswick and Nova Scotia, which represents approximately 13.8% of the consolidated net premiums earned in 2010.

The industry is a major part of the social and economic fabric of Canada. P&C insurers invest mainly in domestic government bonds, corporate bonds, preferred shares and common stocks. Government regulations are in place for the P&C industry that require these investments to be made using a prudent person's viewpoint.

¹ Adapted from "Facts About Property and Casualty Insurance In Canada" prepared by the Insurance Bureau of Canada, *Facts 2009*.

² This and other terms are defined in the glossary included in this annual report. The glossary begins on page 105.

The P&C industry also utilizes reinsurance. Reinsurers, most of which are international organizations, spread risks by writing business with insurers in several countries and in many regions around the world. Insurance companies pay premiums to reinsurers in exchange for an agreement to have a proportion of their claims paid for them, particularly in the event of a major loss or catastrophe. Reinsurance is one of many tools used by insurers to guarantee that they will meet every obligation to pay legitimate claims.

Recent disasters around the world have led to a decline in the amount of reinsurance available to insurers. As a result, Canadian insurance companies have had to pay higher prices for reinsurance.

The Property and Casualty Insurance Compensation Corporation (PACICC), a non-profit entity, was formed in 1988 to provide a reasonable level of recovery for policyholders and claimants under most policies issued by P&C companies in Canada in the unlikely event of the failure of a Canadian P&C company. The maximum amount a policyholder could recover from PACICC is \$250,000 in respect of all claims arising from each policy issued by the insolvent insurer and arising from a single occurrence. Policyholders may also claim 70% of unearned premiums that have been paid in advance, to a maximum of \$700 per policy.

Membership in PACICC is compulsory for most P&C insurers in Canada. At present, SGI CANADA, SGI CANADA Insurance Services Ltd., Coachman and ICPEI are members of PACICC. Members have contributed funds to PACICC so there is money available to pay claims immediately in the event of an insolvency occurring in the industry. Member insurers will provide additional funds, as required, to maintain PACICC. For more information on PACICC, visit its website at www.pacicc.com.

Strategic Direction

In 2010, SGI CANADA saw its 2005-2010 strategic plan come to a close, and a new direction for 2011-2015 take shape. A new vision statement and new corporate strategies were developed to guide the Corporation's future. The new strategic direction is introduced in the President's Message and is further discussed in the *Outlook for 2011* section in this MD&A. While the strategic direction has changed, the values under which the Corporation operates have not.

The Vision and Values under which SGI CANADA operated during 2010 were:

Vision

We will be a leading, diversified property and casualty insurer by offering competitive, high-quality products and services in partnership with our brokers.

Values

Integrity: Conducting ourselves with honesty, trust and fairness

Caring: Acting with empathy, courtesy and respect

Innovation: Implementing creative solutions to achieve our vision

Corporate Strategies

SGI CANADA's corporate strategies focus on maintaining its market share in Saskatchewan, while diversifying operations profitably using a network of independent brokers to distribute its insurance products.

SGI CANADA's rationale for growth outside Saskatchewan is to diversify geographic risk and to return a profit to its shareholder, CIC. Diversification is important because writing business solely in one geographic location, Saskatchewan, presents a significant risk exposure for an insurance company. Further growth opportunities within Saskatchewan, from an insurance perspective, are limited. Therefore, it is critical to the continued long-term success of SGI CANADA to increase its written premiums profitably outside Saskatchewan.

To meet its vision, the Corporation's main areas of strategic focus in 2010 were:

- People
- Customers
- Sustainability
- Financial health
- Profitable growth

These five areas are crucial to SGI CANADA's current and future success. Within them, the Corporation has specific strategies and has developed targets to measure performance. The Corporation uses a balanced scorecard to monitor performance and results. Balanced scorecard objectives provide an evaluation of key operations and financial results, activities and achievements with both a short- and long-term focus.

The following sections discuss strategies in each of the five areas of strategic focus, as well as related key performance indicators from the balanced scorecard. The balanced scorecard is reviewed annually to ensure its continued alignment with SGI CANADA's corporate strategies. Key performance targets are also reviewed and either updated or removed along with new performance targets being added.

People

SGI CANADA's people strategies for 2010 focused on two key strategies: building the right culture in the corporation to deliver on the strategic plan, and attracting and keeping the right people while ensuring they're in the right jobs for their skills and abilities.

Key performance indicators in the balanced scorecard to monitor the Corporation's people strategies are:

Legend: • achieved ◦ did not achieve

<i>Measure</i>	<i>2010 Target</i>	<i>2010 Results</i>	<i>2011 Target</i>
Strategic clarity index	78.5%	◦ 73.9%	75.0%
Recognition index	55.0%	◦ 51.5%	n/a
Leadership index	61.0%	◦ 55.9%	57.0%
Employee value index	73.0%	◦ 61.3%	65.0%
Grow people talent - new hires who are designated group members	25.0%	• 30.9%	25.0%
Training investment	Within 5% of financial services industry average	• Within 2% of financial services industry average	Within 5% of financial services industry average

Strategic clarity index

Strategic clarity is achieved when employees understand the strategic direction of the Corporation, how their work contributes to achieving the strategic goals and the progress SGI CANADA is making towards its strategic goals. The strategic clarity index measures how well employees believe SGI CANADA is achieving those three goals. At 73.9%, the 2010 score was below its target of 78.5%.

While the result is under target, the score remains strong, demonstrating that employees' perceptions of how well they understand the corporate direction and their alignment to it are high. However, a genuine understanding of the corporate direction is important to ensure everyone in the Corporation is working toward a common outcome. This will continue to be a key focus in 2011.

With the introduction of a new long-term strategic direction for 2011-2015, the Corporation anticipates some uncertainty among employees. In recognition of this, the target for 2011 has been lowered slightly to 75.0%.

Recognition index

SGI CANADA believes that the achievements and efforts of its employees are key to achieving corporate results. The recognition index measures how well employees believe SGI CANADA is recognizing their efforts and achievements. Results from the 2008 employee survey were used to tabulate a benchmark recognition index score. The 2010 score of 51.5% was below the 55.0% recognition target for 2010. In response to not achieving this target, corporate-wide focus groups were used to identify areas for improvement going forward.

While recognition will continue to be important to the Corporation, the index will not appear on the balanced scorecard in 2011.

Leadership index

Leadership is critical to achieving the desired corporate culture. The Corporation recognizes the importance of leadership and developed an index to measure the extent employees believe the management team is delivering on important attributes, such as integrity and empowerment. The 2010 target of 61.0% was not achieved with a score of 55.9%.

Based on recent trending, the leadership index target for 2011 is 57.0%.

Employee value index

Employees derive value from their overall work experience. Maximizing this value is critical to engaging and retaining employees. SGI CANADA's employee value index measures how involved and committed people feel toward the organization, a key attribute towards achieving its goal of attracting and keeping the right people. In December 2006, SGI CANADA began measuring engagement through an employee value index calculated using employee survey results. The result for 2010 was under its 73% target with an employee value index score of 61.3%. It is believed that employee uncertainty surrounding the significant changes in progress, such as the communication of a new strategic plan, caused the decline in this score in 2010.

Change is expected to continue in 2011, as implementation of the new corporate plan begins. As such, the 2011 target has been re-established at 65%.

Diversity

Provincial and corporate demographics demonstrate the need to recruit a workforce that is representative of the population. SGI CANADA targeted 25% of new hires to be from designated groups and exceeded the target with 30.9%. The Corporation continues to target the recruitment of designated group members in 2011.

Training investment

Investing in learning and development for employees is critical to maintaining a high performing, engaged workforce. In 2010, SGI CANADA began measuring corporate training investment against the financial services industry average, based on the Conference Board of Canada's training investment metrics. The Corporation's target is to achieve a training investment within 5% of the financial services industry average. This target was achieved in 2010, as the Corporation's training investment was within 2% of the financial services industry average. The 2011 target is once again to be within 5% of the industry average.

Customers

Another area of strategic focus is the customer. In addition to policyholders, SGI CANADA considered its customers to be the independent insurance brokers it partners with to sell its products. The Corporation supports them by providing underwriting expertise and self-service capabilities through its broker web interfaces. SGI CANADA works closely with its brokers to obtain input and advice on the changing needs of policyholders. This recognizes that, as the insurance industry continues to evolve, it is important to stay at the forefront of advancements in technology and changes in customer expectations.

SGI CANADA uses the following key performance indicators in its balanced scorecard to monitor customer initiatives to ensure it is on course with its strategies and is meeting the needs of both its brokers and policyholders:

Legend: ● achieved ○ did not achieve

Measure	2010 Target	2010 Results	2011 Target
Broker satisfaction survey	90% broker satisfaction level	● 92.7% broker satisfaction level	90% broker satisfaction level
Claims customer service survey	90% satisfaction rating	● 92.0% claims customer satisfaction	90% satisfaction rating (consolidated with the Saskatchewan Auto Fund)

Broker satisfaction surveys

SGI CANADA conducts annual surveys in December with brokers in every jurisdiction it does business to determine the level of satisfaction with the services provided to them. It strives for at least 90% of brokers indicating they rate SGI CANADA the same or better than the competition. For 2010, SGI CANADA exceeded its target with a 92.7% satisfaction rating from its brokers.

The target for 2011 continues to be at least a 90% broker satisfaction level in all provinces in which the Corporation operates.

Claims customer service survey

SGI CANADA conducts semi-annual surveys with claims customers to ensure it is meeting their needs. The target in 2010 was a 90% approval rating. The latest survey results were ahead of target, as indicated by a 92.0% satisfaction level. This is a remarkable accomplishment for the Corporation's claims adjusters, given the significant spike in claim volumes in 2010 resulting from Saskatchewan summer storms. The target for 2011 is a 90% consolidated satisfaction level for SGI CANADA and the Auto Fund.

Sustainability

SGI CANADA views sustainability as having three facets: corporate sustainability, community sustainability and environmental sustainability. Corporate sustainability is positioning the Corporation to remain competitive and profitable. Community sustainability dates back to the reason SGI was created, which was to support Saskatchewan families and communities. This remains a priority for the Corporation, as demonstrated through its investment in community programming. Environmental sustainability speaks to SGI CANADA's efforts to minimize its impact on the environment.

The following table summarizes the key performance indicators in the balanced scorecard to monitor sustainability-related initiatives:

Legend: ● achieved ○ did not achieve

<i>Measure</i>	<i>2010 Target</i>	<i>2010 Results</i>	<i>2011 Target</i>
Implement technology improvements	Business Intelligence Phase 1; Commercial lines upload	● On track	Business Intelligence Phases 1 & 2
Use of technology improvements	25% increase in personal lines transactions (SK)	● 62.0%	n/a

Implement technology improvements

SGI CANADA relies on technology and systems to maintain its in-house underwriting system. Its general insurance system is flexible and can adapt to the changing competitive environment that SGI CANADA operates in. The Corporation has developed a large database of information in this system that provides valuable information in assessing insurable risks. Management reporting systems are utilized to ensure management receives timely information regarding operations and to provide complete and accurate reporting to stakeholders and regulators. The Corporation monitors and responds to changes in technology to ensure that key areas are upgraded in a timely manner.

In 2009, a business intelligence project was initiated to further leverage the data in the general insurance system in order to produce timely, sophisticated and consistent information for the decision-making support required to succeed in a competitive environment. In 2010, targeted work on the first phase of the project was completed. The remainder of phase one and work on phase two are targeted for 2011.

For 2010, SGI CANADA also targeted implementation of broker upload for commercial lines products. Upload enables brokers to submit commercial quotes to SGI electronically. This was achieved with the commercial lines upload going live in November.

Use of technology improvements

Implementing technology improvements is necessary to remain current and to continue to meet the needs of customers and business partners. However, these improvements are of little value if they aren't used. As a result, SGI CANADA seeks to increase use of its technology improvements. In 2010, it targeted a 25% increase in online personal lines transactions in Saskatchewan and surpassed this target by a significant margin, achieving a 62% increase.

Use of technology improvements will not appear on the 2011 balanced scorecard. Instead, it will be monitored at an initiative level.

Financial health

Financial health is about protecting the financial viability of the Corporation. SGI CANADA achieves this by soundly managing its finances, seeking efficiencies and mitigating corporate risks.

To be competitive in the P&C insurance industry in Canada, adequate capitalization is critical. This is not only important from a regulatory perspective, but it also allows the Corporation to be flexible in its product offerings in a competitive marketplace. SGI CANADA's main sources of equity are from retained earnings and capital from its parent, CIC. There were no new capital advances to SGI CANADA from its parent during 2010. As well, there were no changes to the capital in the Corporation's subsidiaries during 2010. The Corporation uses the Minimum Capital Test, a balanced scorecard measure, to assess the adequacy of its capitalization.

The following table summarizes the key performance indicators in the balanced scorecard to monitor financial-related initiatives:

Legend: ● achieved ○ did not achieve

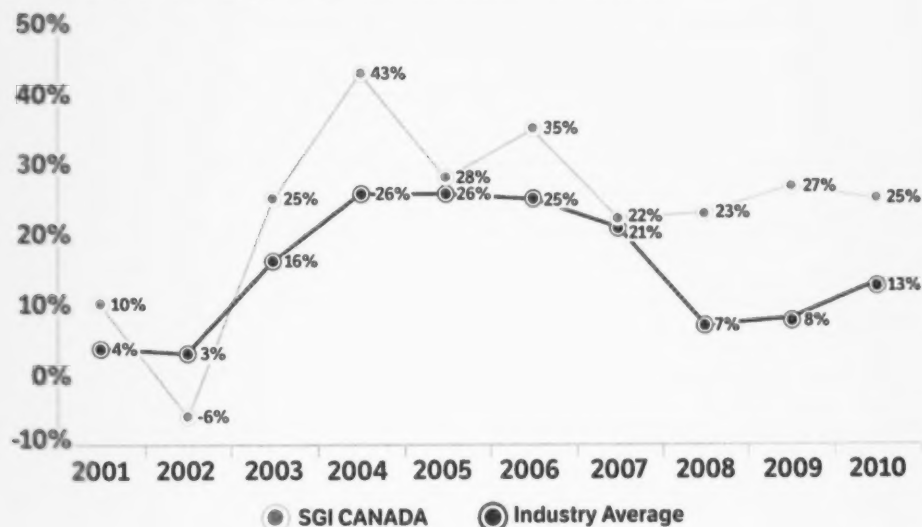
Measure	2010 Target	2010 Results	2011 Target
After-tax return on equity (consolidated entity)	20.2%	● 23.1%	16.6%
Minimum Capital Test (consolidated entity)	Be at the industry average (291%)	○ 247%	250%
Manage administrative expenses	12.9% Administrative expense ratio	● 12.2%	12.5%
Enhance enterprise risk management process	Implement first phase of ERM	● Approval of first phase of ERM	n/a

Return on equity

Return on equity (ROE) indicates the annual return on the investment made by SGI CANADA's shareholder. It is calculated as the ratio of income before income taxes to the average equity for the year excluding accumulated other comprehensive income.

P&C Industry vs. SGI CANADA Consolidated Pre-Tax ROE

Source: SGI CANADA and MSA Research
*2010 - Industry Estimate



The Corporation targets an after-tax ROE based on its annual budget and it exceeded its target returning 23.1%. SGI CANADA's ROE has been favourable compared to the industry over the years as well. The industry's pre-tax ROE for the year is estimated to be 13%, based on data available to the end of the third quarter of 2010, the most recent time period available. By comparison, SGI CANADA's consolidated pre-tax ROE was 24.6%. The Corporation's 10-year average pre-tax ROE is 23%, while the industry averaged 15% for the same time period. Note that because SGI CANADA does not pay income tax on its Saskatchewan operations, the most relevant ROE comparison to the industry is pre-tax.

For 2011, the target is to achieve a consolidated after-tax ROE of 16.6%, based on the Corporation's consolidated budget estimates.

Minimum Capital Test (MCT)

The MCT is a regulatory measure used to assess a company's financial strength. The MCT is a risk-based capital adequacy framework that assesses the riskiness of assets, policy liabilities and off-balance sheet exposures by applying varying factors. From these calculations comes a ratio of capital available to capital required. The regulatory minimum for this ratio is 150%. That is, capital available has to be at least 50% more than capital required. The 50% cushion provides comfort for insurers to cope with volatility in markets and economic conditions, innovations in the industry, consolidation trends, international developments and to provide for risks not explicitly addressed, including those related to systems, data, fraud, legal and other risks. The target for 2010 is based on the December 31, 2008, industry³ average MCT.

The following table shows MCT results by legal entity:

Company	December 31, 2010	December 31, 2009
SGI CANADA (consolidated)	247%	254%
SGI CANADA Insurance Services Ltd. (consolidated)	361%	358%
Coachman	330%	385%
ICPEI	300%	269%

The above table indicates that all companies have a strong MCT at the end of 2010, well above the regulatory minimum. SGI CANADA's MCT remains adequate, however decreased slightly due to its 2010 dividend requirement. ICPEI's increase in its MCT reflects its profitability in 2010, while Coachman's MCT declined due to increasing exposure and risks related to the significant growth in the auto book of business.

For 2011, the target is for consolidated operations to have an MCT at 250%. The dividend policy will be structured to maintain the target MCT.

Manage administrative expenses

To ensure effective use of resources, SGI CANADA manages its allocated administrative expense budget such that the Corporation remains within its targeted administrative expense ratio. The ratio is calculated as total administrative expenses expressed as a percentage of net premiums earned. The actual administrative expense ratio is compared to budgeted ratios within the specified time period. For 2010, SGI CANADA exceeded its target with a 12.2% administrative expense ratio. The target for 2011 is 12.5%.

³ SGI CANADA has defined "industry" for MCT and combined ratio purposes to represent P&C companies (both domestic and foreign branch) with net premium written exceeding \$6 million CDN and excludes all reinsurers, Lloyd's, Insurance Corporation of British Columbia, Manitoba Public Insurance and the Saskatchewan Auto Fund.

Enhance enterprise risk management (ERM) program

Given the nature of the insurance business, risk management is a particularly important objective. SGI CANADA has been actively identifying, managing and prioritizing its risks for several years. Issues such as quantifying risks using actuarial modelling techniques will be explored to determine the benefits of this evolving process in risk management. In 2008, the Corporation completed a gap analysis on the current process. In 2009, it developed an action plan for ERM, including components and a timetable for the first implementation phase. The first phase was implemented in 2010.

ERM will continue to be a focus in 2011, but will be removed as a corporate measure on the balanced scorecard.

Profitable growth

Key to the Corporation's success is its ability to grow while maintaining profitability in a highly competitive industry. Operations in provinces outside Saskatchewan continue to be crucial to SGI CANADA's diversification strategy, however, this strategy also includes maintaining the Corporation's large market share within Saskatchewan. It is a basic business principle for insurance companies to reduce the impact of significant losses by having diversified operations – both geographically and in product mix. Losses in one product or province can be made up through profits in other products and in other provinces. It is important for the Corporation to continue to diversify its insured risks, although it is understood that it is not possible for all segments or markets to be profitable each year. During 2010, 26.7% of direct premiums written were from outside Saskatchewan, an increase of 4.5% from 2009.

While growth is key to long-term success, the Corporation overall must be profitable in order to sustain growth. The Corporation recognizes that it cannot lose sight of the Saskatchewan marketplace, the market where its success developed and that represents the majority of its overall premium base. SGI CANADA strives to continue to grow profitable lines of business in Saskatchewan while maintaining its market share.

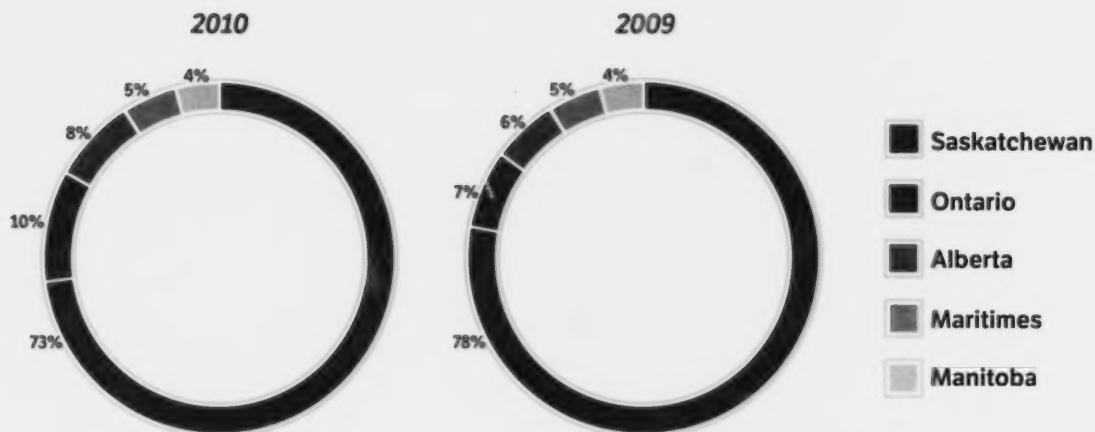
SGI CANADA uses a number of key performance indicators in its balanced scorecard to monitor the above initiatives to ensure that it is on course with its strategies:

Legend: ● achieved ○ did not achieve

Measure	2010 Target	2010 Results	2011 Target
In-province gross premium written	\$338.7 million	● \$344.3 million	Consolidated gross premium written - \$509.5 million
Out-of-province gross premium written	\$103.7	● \$125.7 million	
Consolidated combined ratio	Less than 98%	● 96.8%	93.4%

In-province gross premium written and out-of-province gross premium written

In 1993, SGI CANADA began to diversify its operations with three goals in mind: spreading geographic risk, creating jobs in Saskatchewan and increasing profits for its shareholder. The current strategy for all operations is profitable growth. Targets for growth are set in the budget each year. The 2010 target for in-province gross premium written was \$338.7 million, which was exceeded by \$5.6 million. The target for out-of-province gross premium written was \$103.7 million, which was exceeded by \$22.0 million. Coachman business contributed the majority of the growth in out-of-province operations, with \$49.1 million in direct premiums, compared to \$31.7 million in 2009.



In 2011, SGI CANADA's growth strategy will be measured using a consolidated gross premium written target of \$509.5 million.

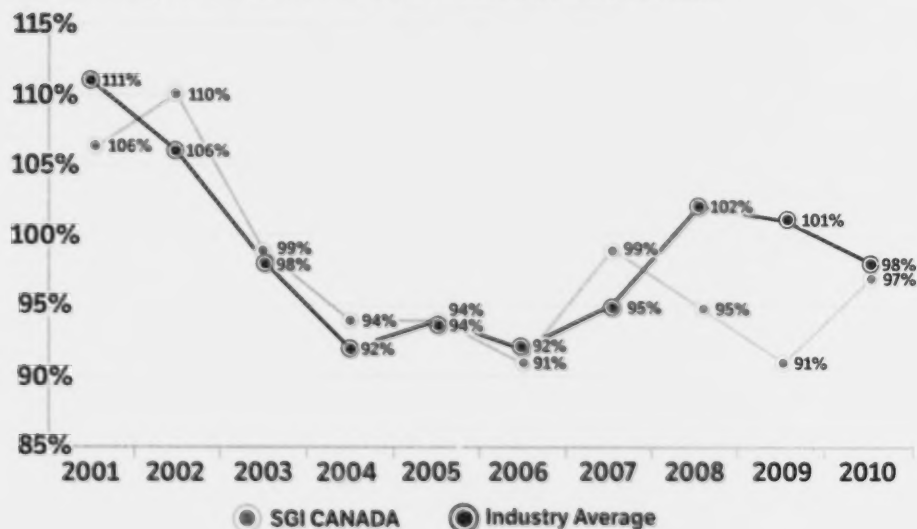
Consolidated combined ratio

This ratio is a key profitability measure for the Corporation. It measures the underwriting profit or loss for a company for a period of time. The combined ratio is calculated as total expenses (claims and other expenses, excluding income taxes and minority interest) divided by net premiums earned. Insurance companies attempt to achieve a ratio of less than 100%, which represents an underwriting profit.

The Corporation's average combined ratio over the previous 10-year period was 98%, slightly better than the industry average of 99%.

P&C Industry vs. SGI CANADA Consolidated Combined Ratio

Source: SGI CANADA and MSA Research
*2010 - Industry Estimates



SGI CANADA's consolidated combined ratio for 2010 was 96.8%, exceeding its target of 98.0%. The 96.8% combined ratio marks the eighth consecutive year that SGI CANADA has achieved a profit from its core activity of underwriting insurable risks. Strong performance from Saskatchewan, Alberta and the Maritime operations was key in achieving the positive underwriting results in 2010.

While in recent years SGI CANADA has achieved a consolidated combined ratio below 100%, the Corporation understands that each jurisdiction may not reach that target every year. Instead, geographic diversification helps the Corporation limit its insurance risk in any one geographic area by allowing it to maintain a strong combined ratio while experiencing high claim costs in certain markets. In 2010 the Saskatchewan, Alberta and Maritime operations achieved the targeted 98% combined ratios, while Ontario and Manitoba operations did not. Ontario experienced high automobile claim costs, while Manitoba had a high number of large property losses during the year.

The 2011 target is a consolidated combined ratio of 93.4%.

Capability to Execute Strategies

Fundamental to the capability to execute corporate strategies, manage key performance drivers and deliver results are the Corporation's employees, brokers, technology and financial capital. They are discussed further below:

Employees

SGI CANADA's management team is experienced and knowledgeable about the Canadian P&C insurance market. Many of the Corporation's employees are long-term with an average length of approximately 15 years of employment, and the staff turnover rate for the last five years has averaged 6%. Due to this long tenure and low turnover, the Corporation has significant expertise in the core underwriting and claims handling areas of its business, as well as within its support areas. This expertise has contributed to SGI CANADA's superior loss ratio and combined ratio in the Saskatchewan market, compared to the insurance industry overall. This expertise is also crucial to its success in markets outside Saskatchewan. Maintaining this expertise is key to meeting the challenges that will present themselves in the future.

SGI CANADA is projecting a significant level of retirements in the near future as a large portion of its workforce reaches retirement age. In fact, nearly 32% of the Corporation's employees are expected to retire, or be eligible for retirement, by 2018. The challenge is to recruit and retain the best people to ensure the longevity, growth and maintenance of SGI CANADA's competitive position for the future. The Corporation has developed a workforce-planning model that includes Aboriginal employment, youth employment, management development and expanded performance management strategies. This model will assist in transitioning expertise as retirements occur.

On December 31, 2009, the three-year Collective Bargaining Agreement (CBA) between SGI and SGI CANADA Insurance Services Ltd., and the Canadian Office and Professional Employees' Union, Local 397 (COPE 397) expired. The bargaining committee is currently in negotiations with respect to reaching a new agreement. This agreement applies to all in-scope employees at SGI. SGI has not had a work stoppage since 1948, and it will continue to work with COPE 397 to ensure that this record continues into the future.

Brokers

SGI CANADA sells its products through a network of 256 independent brokers who conduct business from 367 offices throughout Saskatchewan, and 249 brokers who operate 553 offices throughout the rest of Canada. In order to continue delivering insurance products that customers desire, SGI CANADA works closely with brokers to obtain input and advice on the changing needs of customers. With the assistance of brokers, SGI CANADA is able to take a lead in delivering innovative insurance products to its customers.

SGI CANADA's brokers are well-known in the communities in which they operate and they actively promote the Corporation's products and services. To support its brokers, the Corporation is continually enhancing broker web interfaces to make it easier for them to promote its products and to provide them with the self-service capabilities they have requested. Through 2010, the Corporation will continue to implement and monitor its comprehensive eServices strategy to ensure projects are implemented on time, on budget and that they deliver specified benefits. The Corporation provides other services to ensure a strong commitment between brokers and SGI CANADA. This business model has brought the Corporation success in seven different markets in Canada, and it will continue to market its products this way, building its broker relationships into the future.

Technology

SGI CANADA relies on technology and systems to maintain its in-house underwriting system. Its general insurance system is flexible and can adapt to the changing competitive environment that SGI CANADA operates in. The Corporation has developed a large database of information in this system that provides valuable information in assessing insurable risks. Management reporting systems are utilized to ensure management receives timely information regarding operations and to provide complete and accurate reporting to stakeholders and regulators. The Corporation monitors and responds to changes in technology to ensure that key areas are upgraded in a timely manner.

In 2009, a business intelligence project was approved to further leverage the data in the Corporation's general insurance system in order to produce timely, sophisticated and consistent information for the decision-making support required to succeed in a competitive environment. This is an important project for the Corporation and will expand its ability to:

- Focus on key performance indicators, ensuring alignment with corporate objectives and strategies, and a quicker response to changes in the business environment.
- Focus on obtaining more profitable business and more accurately pricing risks.
- Better manage and control claim costs.
- Have consolidated views of customers, brokers and issuers.
- Reduce the risk associated with using incomplete, inconsistent or inaccurate information.
- Allow easier access to information in a self-service reporting environment.

Work on this initiative began in early 2010, with implementation of aspects of this system expected to begin in 2011.

Financial capital

Adequate capitalization is crucial for insurers competing in the P&C insurance market in Canada. Not only is it important to ensure adequate funding is available to pay policyholder claims, but it allows a company to be flexible in its product offering mix in a competitive marketplace. In addition, regulators have certain capital requirements that must be met in order to sell P&C insurance in each province. Without adequate capitalization, SGI CANADA would not be capable of meeting its growth targets.

The Corporation's main sources of capital are retained earnings and cash injections in the form of equity advances from its parent, CIC. These equity advances form the Corporation's equity capitalization. There were no new equity advances to SGI from its parent in 2010 and there were no changes to the capital of the Corporation's subsidiaries during the same time period.

In Canada, either the Office of the Superintendent of Financial Institutions or provincial regulators regulate P&C insurers. Regulators require insurers to maintain a level of capital sufficient to achieve a minimum capital test target of 150%. SGI CANADA uses this test to assess its capital adequacy, as discussed in the Corporate Strategies section of this report. Management of the Corporation believes SGI CANADA and each of its subsidiaries is adequately capitalized to meet capital targets, as well as to achieve targets for premium growth for the next five years.

Financial liquidity represents the ability of SGI CANADA's companies to fund future operations, pay claims in a timely manner and grow. A main indicator of liquidity is the cash flow generated from operating activities. This is a Canadian generally accepted accounting principle (GAAP) measurement and is reported on the Consolidated Statement of Cash Flows. For 2010, SGI CANADA generated consolidated operating cash flows of \$52.7 million. This cash flow is invested so that it is available to pay claims as they come due and also to meet its dividend requirements to its parent, CIC.

For the cash flow the Corporation retains, its enabling legislation requires it to follow the same investment criterion that federally regulated P&C companies must follow. This means the majority of the Corporation's investments are in highly liquid securities that can be sold in a timely manner in order to satisfy financial commitments. As at December 31, 2010, 45% (2009 – 44%) of the investment portfolio was in treasury bills and highly liquid bonds and debentures issued by the federal and provincial governments. The Corporation also invests in corporate bonds, a pooled mortgage fund, publicly traded North American equities and a non-North American pooled equity fund.

During the current year, dividends of \$43.5 million (2009 – \$34.0 million) were declared, which represents a dividend rate of 90% of consolidated net income (2009 – 65%). At the same time, adequate capital has been maintained within the Corporation to meet its capital targets and its financial obligations as they come due.

2010 Financial Results

For the year ended December 31, 2010

Overview of operations

SGI CANADA's consolidated net income before income taxes and non-controlling interest was \$51.3 million in 2010, \$2.0 million lower than 2009. However, the 2010 profit is significant when considering the exceptional storm activity experienced during the year and that the 2009 result was a record profit for the Corporation. The 2010 return resulted from a consolidated underwriting profit of \$13.1 million combined with \$38.3 million in investment earnings. The breakdown by operating segment follows:

Pre-tax profit (loss) by operating segment

	2010	% of pre-tax profit	2009	% of pre-tax profit (loss)
			(thousands of \$)	
SGI CANADA - Saskatchewan	\$ 43,284	84.3%	\$ 49,539	92.8%
SGI CANADA - Manitoba and Alberta	4,130	8.1%	4,404	8.2%
ICPEI (Maritimes)	2,739	5.3%	205	0.4%
Coachman (Ontario)	1,192	2.3%	(761)	(1.4%)
Pre-tax profit	\$ 51,345	100.0%	\$ 53,387	100.0%

All jurisdictions were profitable in 2010. Saskatchewan operations provided 84.3% of the pre-tax profit in 2010, with out-of-province business contributing 15.7%. Saskatchewan operations had a 95.7% combined ratio. Alberta operations continued to experience strong premium growth and posted a 94.6% combined ratio in 2010, while Manitoba business was adversely impacted by several large losses in 2010, contributing to a lower profit compared to 2009. Maritime operations improved due to fewer large losses during the year. Ontario posted a \$1.2 million profit in 2010 compared to a loss of \$761,000 in 2009. While returning to profitability in 2010, Coachman continues to have unfavourable underwriting results primarily from standard auto, symptomatic of the current Ontario industry in general.

Premium revenue

Consolidated net premiums written in 2010 increased by \$36.6 million or 9.3% compared to 2009.

Net premiums written by operating segment

	2010	% of net premium written	2009	% of net premium written
			(thousands of \$)	
SGI CANADA - Saskatchewan	\$ 318,120	73.9%	\$ 306,531	77.8%
SGI CANADA - Manitoba and Alberta	46,475	10.7%	40,015	10.2%
Coachman (Ontario)	45,162	10.5%	29,459	7.5%
ICPEI (Maritimes)	20,803	4.9%	17,909	4.5%
Net premiums written	\$ 430,560	100.0%	\$ 393,914	100.0%

Saskatchewan operations had an increase in net premiums written of 3.8% for the year, while out-of-province operations increased written premium by 28.7% compared to the prior year. Personal lines and farm premiums contributed the largest share (over 90%) of the increase in Saskatchewan premiums. Personal auto also contributed to the increase, a result of a 3% increase in the number of vehicle exposures. Growth in out-of-province premiums was driven by a 53.3% increase from Ontario operations (primarily auto) and continued growth in SGI CANADA's newer markets of Nova Scotia (32.8% increase), New Brunswick (25.1% increase) and Alberta (23.5% increase).

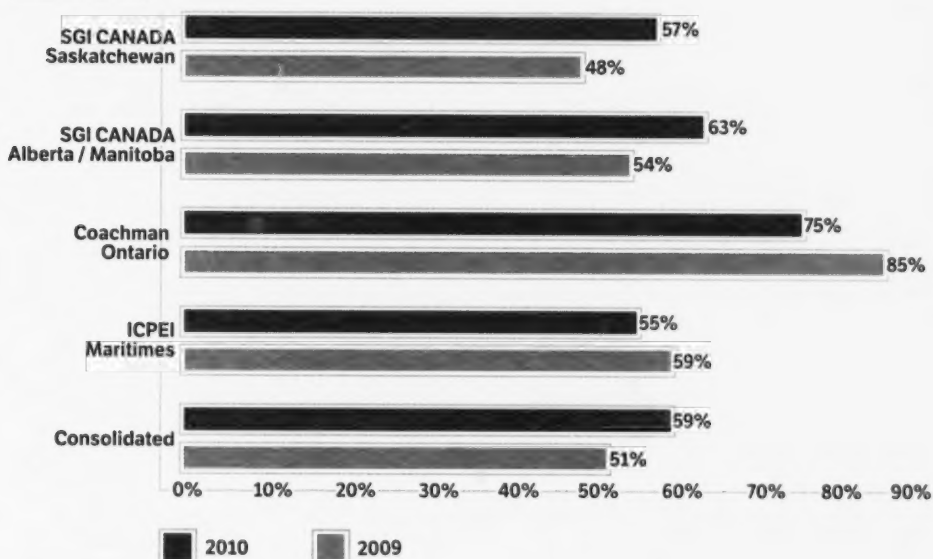
When viewed from a consolidated line of business basis, the Corporation's split of business in 2010 was approximately 48% property (2009 – 49%), 43% auto (2009 – 42%) and 9% liability and other (2009 – 9%). The 1% shift between property and auto is primarily attributable to the significant growth of auto business in Ontario and Alberta operations.

Claims incurred

Consolidated claims incurred increased by \$50.4 million (26.6%) to \$240.0 million in 2010, compared to \$189.6 million in 2009. The increase is the result of unusually severe storm activity in Saskatchewan in 2010, compared to very mild storm activity in the prior year. The consolidated loss ratio of 58.9% increased 7.7% from 2009.

The following table highlights the ratio of claim costs in relation to premiums earned, commonly known as the loss ratio, for each operating segment:

Loss Ratios

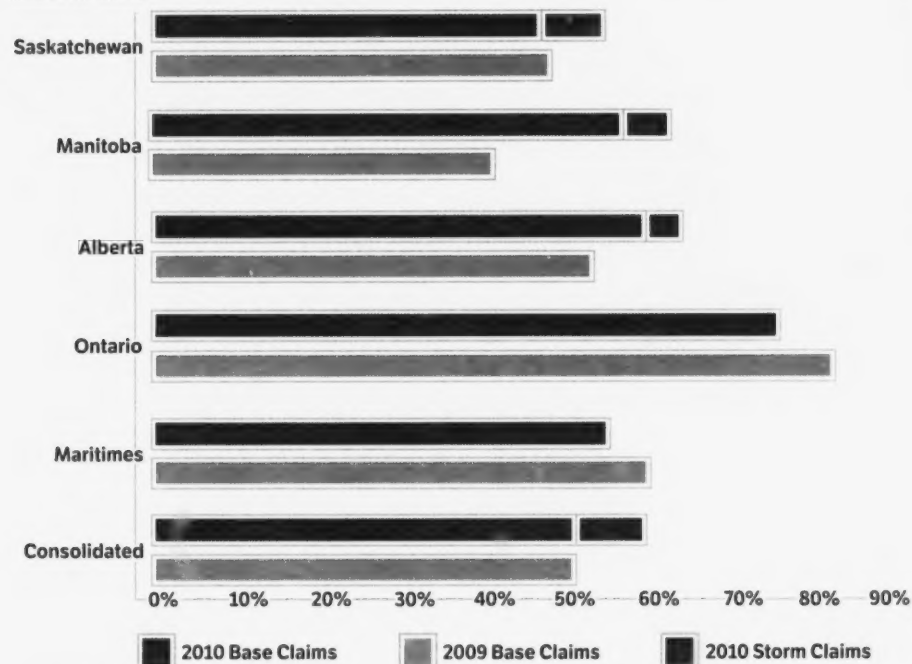


Claim costs related to Saskatchewan operations increased \$35.5 million to \$175.1 million in 2010 from \$139.6 million in 2009. Correspondingly, the Saskatchewan loss ratio grew to 56.7% in 2010, compared to 47.5% in 2009. The increase is a reflection of the significantly higher storm costs in 2010. The 2010 Saskatchewan storm activity is summarized on an event basis as follows:

Date of Storm	Description	Net Claims Incurred (000s)
Early April	Windstorm: province-wide	\$ 8,629
Mid-April	Sewer back-up: Humboldt	1,372
Mid-June	Sewer back-up: Maple Creek	4,788
Late June	Sewer back-up: Regina	2,984
June/July	Sewer back-up: Saskatoon/Yorkton	6,217
Mid-July	Hail: Radville	2,312
Mid-July	Sewer back-up: Battleford	1,104
Late July	Hail: Carlyle/Bufalo Pound	1,898
Early September	Sewer back-up: Regina	3,165
		\$ 32,469

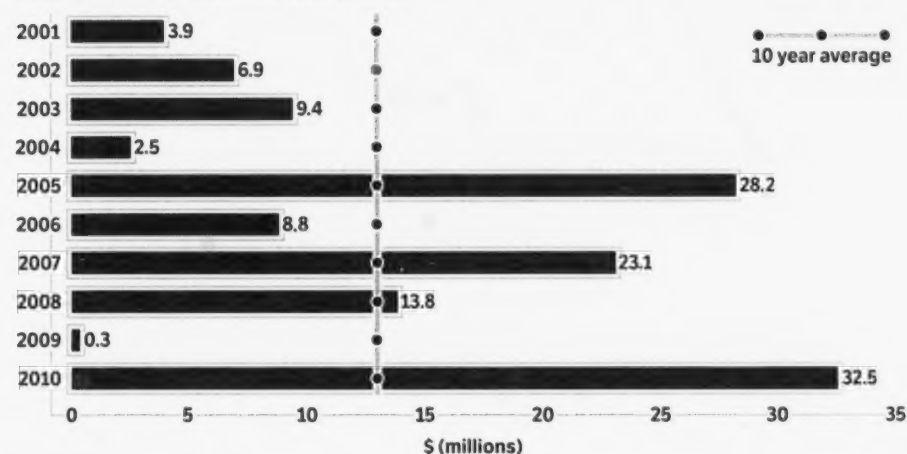
The impact of storm costs is further illustrated in the table below, detailing components of the 2010 loss ratio between storm and non-storm claim costs:

Loss Ratios



The impact of the storms was the primary driver of the increase in the 2010 consolidated loss ratio. Removing the storms, the consolidated loss ratio is 50.4% in both 2010 and 2009. The following graph shows the significance of storm claims over the past 10 years and demonstrates the increasing unpredictability:

Saskatchewan Storm Claims (net)



Manitoba's loss ratio increased to 62.9% from 47.7% in 2009, and was impacted by a severe rainstorm in late May. Further contributing to the increase were losses relating to several large property fires in 2010.

Alberta's loss ratio is higher than the prior year, at 63.2% compared to 57.3% in 2009. The 2010 claim results were largely impacted by two significant rain/hailstorms in June and July.

Ontario's loss ratio decreased to 75.2% in 2010 (2009 – 84.5%), with the improvement resulting from personal and commercial property loss ratios. Auto results have deteriorated, a result of higher injury claim severity and inherent uncertainty in the Ontario auto market.

The loss ratio for the Maritimes operations decreased to 54.5% in 2010 (2009 – 59.4%), primarily due to better results in personal business compared to 2009.

Expenses excluding claims incurred

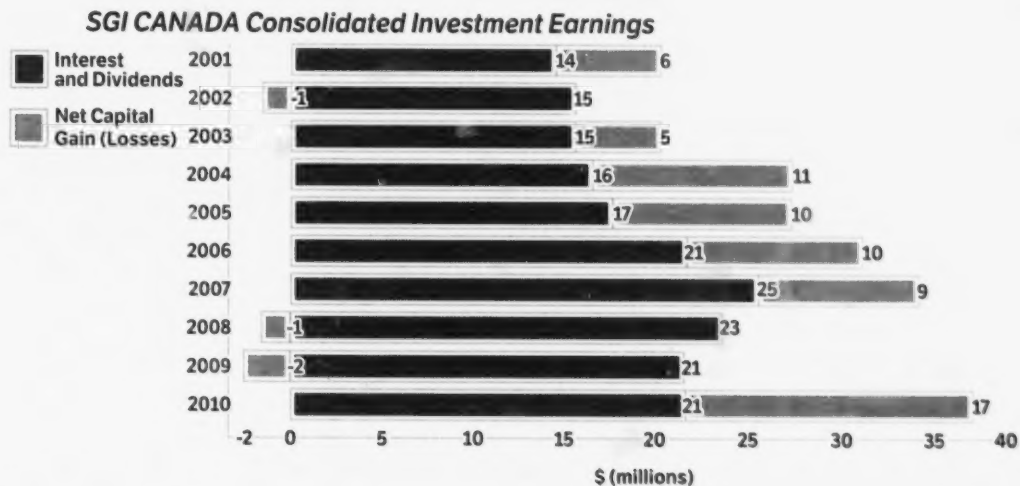
Other expenses of \$154.4 million increased \$7.3 million or 4.7% in 2010. The increase was primarily attributable to higher broker commissions and premium taxes, however the commission and premium tax ratio decreased from 26.5% in 2009 to 25.5% in 2010. While administrative expenses increased \$1.3 million (2.7%) in 2010, the administrative expense ratio declined to 12.2% from 13.1% in 2009, a combination of the relatively low expense growth and significant growth in premiums. The 2.7% growth in administrative expenses was largely due to staffing costs. Also included in the 2010 underwriting results is a \$786,000 gain related to participation in the Facility Association (2009 – a loss of \$482,000).

Investment earnings

Investment earnings contribute significantly to net income and help minimize volatility in insurance rates. Investment earnings consist of interest and dividend income, net of investment expenses and realized gains (losses) on investments. The amount of realized gains or losses on sale of investments can fluctuate from year-to-year depending on the size of the unrealized gains in the portfolio, the changes in interest rates and the trading activity in the investment portfolio.

Investment earnings in 2010 of \$38.3 million were \$18.7 million higher than the previous year's earnings of \$19.6 million. Investment earnings consisted of \$21.4 million in interest and dividends (2009 – \$21.3 million), and \$16.9 million in realized gains on sale of investments, net of write-downs (2009 – \$1.7 million loss).

The following chart shows the breakdown of investment earnings between interest and dividends and net realized gains (losses) over the last 10 years:



Due to the strength of the capital markets and the success of the investment manager in selecting stocks, investment write-downs were a minor consideration in 2010. Securities previously in significant unrealized loss positions recovered strongly resulting in only limited write-downs during the year, totaling \$0.5 million for 2010 (2009 – \$4.0 million).

Of note for 2010 is the large increase in net realized gains on sale of investments, reversing the trend of the last few years. Realized gains are dependent on investment market conditions and trading activity of the investment manager. Improving economic fundamentals created a positive environment for equity markets, while continued low interest rates produced strong bond results. The Canadian equity market again led the strong performance driven by gains in commodity stocks.

Annual index returns ending December 31

Asset Class	Benchmark Index	2010	2009
Canadian equities	S&P/TSX Composite	17.6%	35.1%
U.S. equities	S&P 500 (\$C)	9.1%	7.4%
Non-North American equities	MSCI EAFE (\$C)	2.1%	11.9%
Bonds	DEX Universe Bond	6.7%	5.4%
Short-term bonds	DEX Short-term Bond	3.6%	4.5%

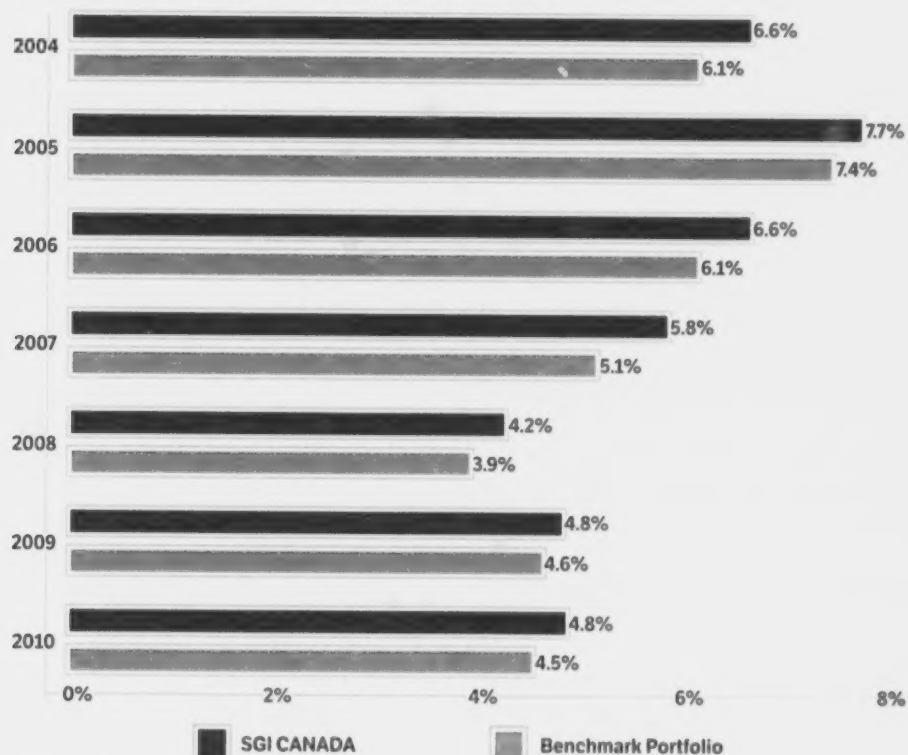
Equity market gains in 2010 were widespread with the TSX Composite Index increasing 17.6%, the S&P 500 rising 15.1% (9.1% in Canadian dollar terms) and non-North American equities, the EAFE Index, rising 4.8% in aggregate local currency terms (2.1% in Canadian dollar terms). While foreign equities markets were strong during 2010, the corresponding increase in the Canadian dollar limited gains for Canadian investors.

For purposes of portfolio management, a market-based rate of return is calculated that captures all interest and dividend income, as well as the impact of the change in market value of securities, both realized and unrealized. In 2010, the SGI CANADA portfolio's market-based return was 7.6% compared to 9.9% in 2009. In addition, the 2010 return was ahead of the benchmark portfolio return of 6.8% by 0.8% (2009 outperformed the benchmark by 0.6%). Although the return in 2010 was lower than experienced in 2009, the strong performance was a result of large positive returns in each of Canadian and U.S. equities as well as fixed income. Value added over the benchmark in 2010 of 0.8% was due to strong relative fixed income and Canadian equity returns. Similar performance trends were seen in the portfolios for SGI CANADA Insurance Services Limited, Coachman Insurance Company and Insurance Company of Prince Edward Island.

The primary investment performance objective of the portfolio is to earn a market-based return in excess of a benchmark portfolio return. The asset mix for the benchmark portfolio is set by the Board to be consistent with SGI CANADA's risk profile and is reviewed on an annual basis. In addition, each subsidiary has its own investment portfolio with a policy consistent with its risk profile. The investment manager is permitted to vary the actual asset class weights around the benchmark portfolio, within the policy asset mix guidelines. The benchmark portfolio return is calculated by applying the benchmark portfolio weights to capital market index returns. While the portfolio's rate of return is compared to the benchmark portfolio return on a quarterly basis, the performance measure is expected to be met over four years, a long enough period to capture a full market cycle. This longer-term measure is appropriate as it recognizes that the effectiveness of investment management styles varies depending on the market environment.

Performance relative to the benchmark portfolio varies from year-to-year, but over rolling four-year periods, investment performance remains satisfactory as illustrated in the following graph:

Four-Year-Market based Returns to December 31



Income taxes

The Corporation's out-of-province legal entities, SGI CANADA Insurance Services Ltd., Coachman and ICPEI are subject to corporate income tax, while SGI CANADA is not. On a consolidated basis, SGI CANADA recorded a tax expense of \$2.5 million in 2010 compared to an expense of \$1.0 million in 2009. Excluding Saskatchewan operations, which are non-taxable, this results in a tax rate of 31.8%, compared to the expected tax rate of 30.2%. The primary reasons for the difference is that changes in the statutory tax rates have decreased the value of the future tax asset resulting in a corresponding increase to income tax expense, and there was additional tax related to the sale of equity accounted investments. However, these are partially offset by investment income, specifically Canadian dividend revenue, which is not subject to tax.

Consolidated Statement of Comprehensive Income

	2010	2009	Change
		(thousands of \$)	
Net income	\$ 48,356	\$ 52,367	\$ (4,011)
Other comprehensive income	7,169	30,151	(22,982)
Total comprehensive income	\$ 55,525	\$ 82,518	\$ (26,993)

Comprehensive income is the sum of net income and other items that must bypass the statement of operations because they have not been realized (other comprehensive income or loss). For the Corporation, this includes unrealized gains and losses from available for sale investments. These unrealized gains and losses are not part of net income, yet are important enough to be included in comprehensive income, giving the user a more comprehensive picture of the organization as a whole.

In 2010, other comprehensive income added \$7.2 million to net income for total comprehensive income of \$55.5 million. Other comprehensive income decreased \$23.0 million compared to 2009. This decrease is a result of the lower market rate of return in 2010 compared to 2009, in addition to realizing significant gains in 2010 compared to 2009.

Consolidated Statement of Cash Flows

	2010	2009	Change
		(thousands of \$)	
Operating activities	\$ 52,668	\$ 68,432	\$ (15,764)
Investing activities	8,478	(44,564)	53,042
Financing activities	(50,257)	(19,247)	(31,010)
Change in cash and cash equivalents	\$ 10,889	\$ 4,621	\$ 6,268

Operating activities

Cash from operations contributed \$52.7 million in 2010 compared to \$68.4 million in 2009. While net income year-over-year is relatively similar, the lower underwriting profit in the current year is responsible for the decline. The significant storm claims impacted cash flows in 2010 compared to 2009, which had minimal storm activity. However, at \$52.7 million, 2010 cash flow from operations is still strong, primarily due to the continued favourable premium growth from all companies.

Investing activities

Each legal entity's excess cash from operating activities is invested in its own investment portfolio. The investment manager actively trades each investment portfolio in the capital markets following the conditions set out in each legal entity's Statement of Investment Policies and Goals. For 2010, the investment manager, on a consolidated basis, generated cash through proceeds from the sale of investments of \$543.1 million (2009 – \$419.9 million), and reinvested into investments \$531.7 million (2009 – \$464.9 million). In addition, there were \$3.4 million in purchases of property, plant and equipment in 2010, resulting in a net generation of cash during the year of \$8.5 million (2009 – net use of cash of \$44.6 million).

Financing activities

Financing activities during the year related solely to dividends paid during the year of \$50.3 million (2009 – \$19.2 million). Dividends paid during 2010 were significantly higher than in 2009 due to the dividend rate increasing from 65% in 2009 to 90% in 2010. In addition, the 2009 fourth quarter dividend payment (paid in March 2010) was unusually high at \$22.2 million.

Cash and cash equivalents

Of the \$61.1 million of cash generated from operations and investing activities, \$50.3 million was used to pay dividends and the remaining \$10.9 million was added to cash and cash equivalents. Cash and cash equivalents was \$27.8 million at the end of 2010. Of this balance, \$26.4 million is invested in money market investments with a maturity of 90 days or less from the date of acquisition.

Consolidated Statement of Financial Position

	2010	2009	Change
		(thousands of \$)	
Total assets	\$ 872,815	\$ 827,437	\$ 45,378
Key asset account changes:			
Unpaid claims recoverable from reinsurers	44,132	29,626	14,506
Investments	591,219	579,730	11,489
Cash and cash equivalents	27,809	16,920	10,889
Deferred policy acquisition costs	56,204	52,412	3,792
Accounts receivable	127,479	125,334	2,145

Unpaid claims recoverable from reinsurers

Unpaid claims recoverable from reinsurers increased \$14.5 million in 2010, primarily due to amounts related to the unusually severe storm activity in Saskatchewan. Amounts due under Saskatchewan 2010 storm catastrophe reinsurance agreements account for \$18.8 million of the recoverable balance.

Investments

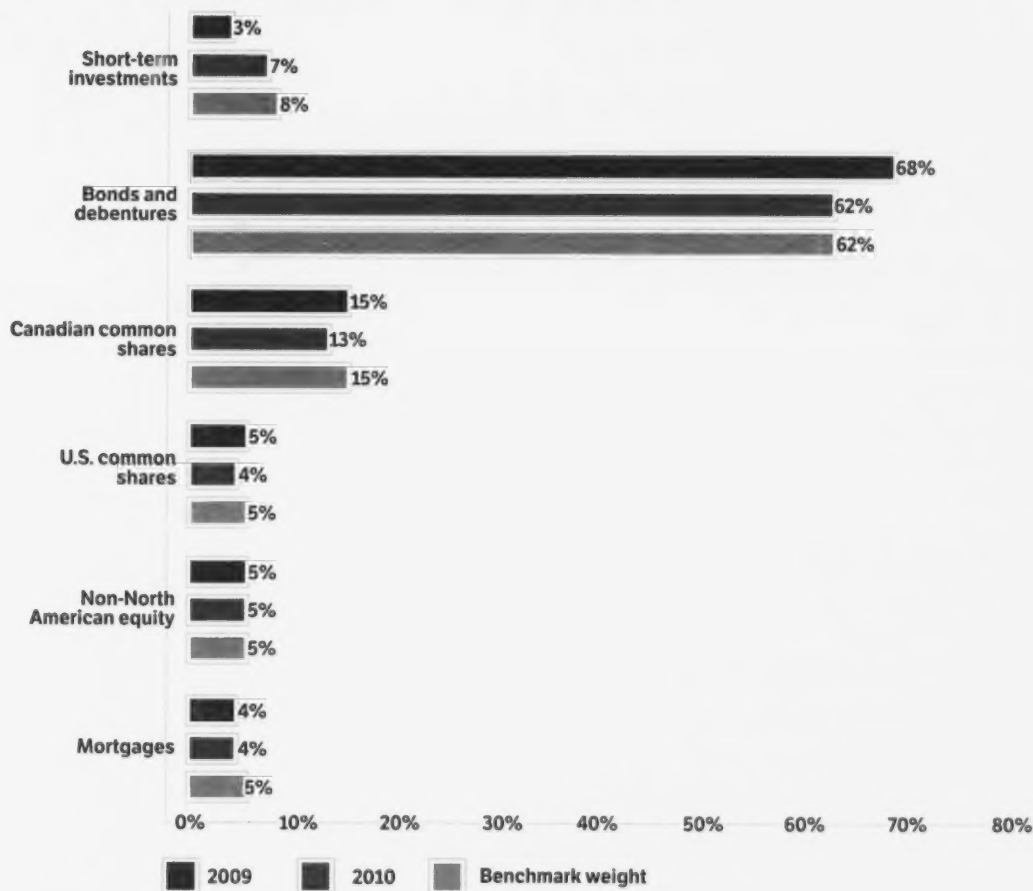
The carrying value of investments increased by \$11.5 million during the year, primarily the result of a \$25.2 million improvement in market values, offset by a net \$11.3 million moved from investments into cash.

The Corporation's investment strategy is based on prudence, regulatory guidelines and claim settlement patterns, with a view to maximizing long-term returns utilizing a conservative investment portfolio. The portfolio's asset mix strategy is set by the Board through a detailed assessment of the Corporation's risk tolerance. The asset mix strategy takes into consideration the current and expected conditions of the capital markets, and the historic return and risk profile of various asset classes. In order to achieve the long-term investment goals, the portfolio must invest in asset classes that provide an attractive risk-return profile over the medium to long-term. Over shorter periods, however, performance of these asset classes can be volatile. In 2010, volatility continued, although at a lower rate, with positive gains building on the strong reversal that was experienced in 2009. The Corporation believes a diversified asset mix and longer-term focus remains appropriate, balancing the need for capital preservation in the short term with the desire for portfolio growth over the longer term.

The asset mix strategy is formally documented in the Statement of Investment Policies and Goals. In addition to capturing the asset mix strategy, this document provides guidance on permissible investments, quality and quantity guidelines, conflicts of interest, related party transactions and investment performance expectations, among others. Management monitors and enforces compliance with the investment policy. No material compliance deviations were noted in 2010.

The Corporation's investment portfolio is managed by external investment managers. The portfolio is invested in short-term investments, bonds, mortgages and equities. Equities consist of Canadian, U.S. and non-North American equities. The Corporation's subsidiaries hold their Canadian and U.S. equities through pooled funds, while all the Corporation's non-North American equities are held through a pooled fund.

SGI CANADA Asset Mix As at December 31



The investment policy review in 2010 resulted in changes to the policy asset mix guidelines and benchmark portfolio weights for the SGI CANADA, SGI CANADA Insurance Services Ltd. and Coachman investment portfolios. The fixed income portfolios within these companies were restructured to better match investment assets to their associated liabilities and to reduce potential interest rate risk. For SGI CANADA, the half of the fixed income portfolio holding long-term bonds was sold and subsequently reinvested in bonds with shorter maturities as well as higher allocations to cash. Similarly in SGI CANADA Insurance Services Ltd., longer-term bonds were sold and reinvested in short-term bonds and cash, although with significantly higher allocations to cash due to its surplus of bond assets over its associated liabilities. The Coachman fixed income portfolio was previously fully invested in short-term bonds, but it was also determined to have surplus bond assets over its liabilities allowing for higher allocations to cash. In all cases, the restructured portfolios showed better alignment between bond assets and interest rate sensitive liabilities. The ICPEI portfolio required no changes in 2010 due to its already close alignment between its assets and liabilities.

Cash and cash equivalents

Cash and cash equivalents at December 31, 2010, was \$27.8 million (2009 – \$16.9 million), an increase of \$10.9 million. The sources of the change in cash and cash equivalents for the year are discussed in the above section Consolidated Statement of Cash Flows. Cash equivalents consist of money market investments such as treasury bills, banker's acceptances, discount notes or other liquid short-term investments that have a maturity of 90 days or less from the date of acquisition.

Deferred policy acquisition costs

Deferred policy acquisition costs increased \$3.8 million during the year. The increase is due to an increase in prepaid commissions and prepaid premiums, a direct result of increased premium volume.

Accounts receivable

Accounts receivable increased \$2.1 million, largely a result of a \$12.0 million increase in financed premiums receivable. The increase is commensurate with the growth in premiums written. Offsetting this increase are investment proceeds receivable of \$12.3 million outstanding at the end of 2009 related to investment transactions in progress. There were no investment transactions in progress over the 2010 year end. Additionally of note is an increase of \$1.5 million included in amounts due from brokers for loans issued during the year related to the sale of its equity accounted investments. These investments were related to the Corporation through the minority shareholder in ICPEI. These loans are described in detail in note 17 to the financial statements.

	2010	2009	Change
		(thousands of \$)	
Total liabilities	\$ 632,070	\$ 599,246	\$ 32,824
Non-controlling interest	2,428	1,879	549
Key liability account changes:			
Unearned premium	242,497	218,893	23,604
Provision for unpaid claims	316,820	293,575	23,245
Dividend payable	15,462	22,199	(6,737)
Accounts payable and accrued liabilities	29,292	39,476	(10,184)

Unearned premiums

Unearned premiums increased \$23.6 million, a direct result of growth in premiums written.

Provision for unpaid claims

This liability reflects the estimated ultimate costs of claims reported but not settled, along with claims incurred but not reported. The December 31, 2010, provision for unpaid claims increased \$23.2 million, or 79%, from the end of last year. This is largely due to direct losses from the severe storm activity in Saskatchewan, with \$20.8 million of 2010 storm-related direct claims remaining unpaid at December 31, 2010. The remaining increase is due to the additional exposure related to the significant policy growth in the out-of-province operations.

The process to determine this liability is complex as it takes into consideration numerous variables that are subject to the outcome of future events. Any change in estimates is reflected as claims incurred on the Consolidated Statement of Operations.

Accounts payable and accrued liabilities

Accounts payable decreased \$10.2 million, primarily due to investment purchases outstanding over the 2009 year-end. There were no investment transactions in progress over the 2010 year-end.

Dividends payable

Dividends payable to Crown Investments Corporation (CIC) are \$6.7 million lower at the end of 2010 compared to the end of 2009. The amount due at the end of 2009 was higher primarily due to not paying a second quarter dividend in 2009, a result of re-forecasted investment earnings that suggested it wasn't prudent at that time.

	2010	2009	Change
	(thousands of \$)		
Province of Saskatchewan's equity	\$ 238,317	\$ 226,312	\$ 12,005
Key equity account changes:			
Accumulated other comprehensive income	27,002	19,833	7,169
Retained earnings	131,315	126,479	4,836

Accumulated other comprehensive income (AOCI)

AOCI represents the unrealized gains or losses recorded on the Corporation's investments (net of tax). AOCI increased during the year due to the positive market returns achieved over the course of 2010.

Retained earnings

The \$4.8 million increase in retained earnings is attributable to the \$48.8 million consolidated net income less the annual dividend to CIC of \$43.5 million. The Corporation's 2010 dividend represented a dividend rate of 90% of net income.

For the three months ended December 31, 2010

SGI CANADA prepares public quarterly financial reports for the first three quarters of each year. These reports are available on its website at www.sgicanada.ca. Click on the Corporate Profile link and follow the links in the Financial Report section. The following is the Corporation's analysis of the 2010 fourth quarter results.

SGI CANADA recorded consolidated net income of \$21.6 million for the fourth quarter compared to \$15.0 million in 2009. The increase was attributable to both improved underwriting profits and investment earnings.

Consolidated net premiums earned increased \$8.6 million, or 8.7%, compared to the fourth quarter of 2009. All jurisdictions generated increases in premium earnings compared to 2009, with out-of-province business contributing \$5.6 million and Saskatchewan operations growing by \$3.0 million. Out-of-province business growth was driven largely by Alberta and Ontario markets.

Claims incurred were \$52.6 million for the fourth quarter of 2010, \$3.5 million or 6.7% higher than 2009. A significant contribution to the increase in the quarter was higher claim costs from Alberta and Ontario, primarily due to the increasing exposure related to the growing premium base in these two provinces. Overall, the consolidated loss ratio of 49.3% decreased slightly from 50.1% in 2009.

Other expenses for the fourth quarter of 2010, excluding claims incurred, were \$41.6 million, compared to \$40.7 million in 2009. The most significant contributors to the 2.3% increase were commissions and premium taxes, which grew as a result of the growth in the premiums written. The total commissions and premium taxes for the quarter were \$29.0 million compared to \$27.9 million in 2009.

Quarterly Consolidated Financial Highlights

The following table highlights quarter over quarter results for the Corporation:

	2010					2009				
						(thousands of \$)				
	Q 4	Q 3	Q 2	Q 1	Year	Q 4	Q 3	Q 2	Q 1	Year
Net premiums earned	106,754	102,768	100,751	97,220	407,493	98,166	94,468	90,477	87,444	370,555
Claims incurred	52,598	61,829	76,998	48,592	240,017	49,136	56,912	42,956	40,607	189,611
Net income (loss)	21,616	17,009	(7,006)	16,737	48,356	15,045	6,431	17,659	13,232	52,367
Cash flow from (used in) operations	30,646	11,170	14,419	(3,567)	52,668	33,361	18,897	25,208	(9,034)	68,432
Investments	591,219	577,553	554,967	564,926		579,730	566,248	519,335	489,212	
Provision for unpaid claims	316,820	333,764	332,606	292,484		293,575	289,608	277,681	280,737	
Minimum Capital Test	247%	248%	246%	280%		254%	273%	265%	232%	

Impact of New Accounting Standards

Future accounting standard changes

In February 2008, the Canadian Institute of Chartered Accountants (CICA) Accounting Standards Board confirmed that publicly accountable enterprises, including the Corporation and its subsidiaries, will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian generally accepted accounting principles (GAAP) for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures. The Corporation is considered to be a government business enterprise and therefore the Corporation and its subsidiaries are proceeding with the adoption of IFRS. The Corporation will publish its first consolidated financial statements prepared in accordance with IFRS for the quarter ending March 31, 2011, along with comparative figures. The Corporation will also provide an opening balance sheet as at January 1, 2010, the date of transition to IFRS.

The Corporation has an IFRS conversion project ongoing that began with the development of a high-level IFRS implementation plan. The plan included stakeholder identification, milestones and deadlines, planned scope and approach, risks and mitigations, project governance and accountability responsibilities and resource requirements. A steering committee is in place that includes senior-level management who have the responsibility to ensure the project is adequately planned in sufficient detail, appropriate resources are available, necessary milestones are established and project progress is properly monitored. An external advisor has been engaged to assist with the conversion project. Regular reporting is provided by the project team to senior management, the Steering Committee and the Audit and Finance Committee of the Board of Directors.

The IFRS conversion project is progressing on schedule, in accordance with the plan. The project consisted of four phases: Project Initiation and Initial Assessment, Detailed Assessment, Design and Execution. The Corporation is currently in the Execution phase, which will be considered complete upon the presentation of the December 31, 2011, financial statements to the Audit and Finance Committee of the Board of Directors during the first quarter of 2012.

The Initial Assessment, completed in the first quarter of 2009, provided insight as to the most significant differences applicable to the Corporation, which include insurance contract classification and measurement, first-time adoption, financial instruments, property, plant and equipment, employee future benefits, consolidation and minority interest, provisions and leases, as well as the more extensive presentation and disclosure requirements under IFRS.

During the Detailed Assessment, completed in the fourth quarter of 2009, the Corporation selected IFRS accounting policies, made transitional elections and identified any information technology system requirements. This phase of the project was substantially completed December 31, 2009.

Set out below is a reconciliation of retained earnings from Canadian GAAP to IFRS as of the Corporation's transition date, January 1, 2010, followed by an explanation of each adjustment.

	<i>Equity Advances</i>	<i>Accumulated Other Comprehensive Income</i>	<i>Retained Earnings</i>	<i>Province of Saskatchewan's Equity</i>	<i>Non-Controlling Interest</i>	<i>Total Equity</i>
(thousands of \$)						
Balance as at January 1, 2010 (Canadian GAAP)	\$ 80,000	\$ 19,833	\$ 126,479	\$ 226,312	\$ 1,879	\$ 228,191
Employee benefits						
- IFRS 1	—	—	(4,278)	(4,278)	—	(4,278)
- Past service costs	—	—	(4,450)	(4,450)	—	(4,450)
Auto Fund constructive obligation	—	—	5,868	5,868	—	5,868
Property, plant and equipment	—	—	23,225	23,225	—	23,225
Financial instruments - reclassification	—	(19,833)	19,833	—	—	—
Provision for unpaid claims - discounting	—	—	7,475	7,475	—	7,475
Other IFRS adjustments	—	—	80	80	—	80
Total adjustments	—	(19,833)	47,753	27,920	—	27,920
Balance as at January 1, 2010 (IFRS)	\$ 80,000	\$ —	\$ 174,232	\$ 254,232	\$ 1,879	\$ 256,111

Employee benefits

The Corporation plans to utilize an election to recognize all cumulative actuarial gains and losses existing at the date of transition immediately in retained earnings, resulting in a decrease to retained earnings at January 1, 2010, of \$4,278,000. In addition, vested past service costs are required to be expensed immediately under IFRS, whereas these costs were deferred and amortized under Canadian GAAP. This change in accounting policy will also be adjusted at the date of transition through retained earnings, resulting in a decrease to retained earnings at January 1, 2010, of \$4,450,000.

On a go-forward basis, actuarial gains and losses are permitted to be recognized using one of three options: the corridor method, immediately through profit or loss, or immediately in other comprehensive income. The Corporation plans to recognize actuarial gains and losses immediately in other comprehensive income upon adoption of IFRS.

Auto Fund constructive obligation

The Corporation allocates a portion of its retirement benefit costs associated with its defined benefit pension plan and defined benefit service recognition plans to the Saskatchewan Auto Fund for those employees of the Corporation who provide service to it. The employee benefit adjustments made under IFRS above result in the Auto Fund having a constructive obligation to the Corporation. The constructive obligation arises from events and transactions before the date of transition to IFRS, and accordingly has been recognized directly in retained earnings. The impact on retained earnings at January 1, 2010, of this constructive obligation is an increase to retained earnings of \$5,868,000.

Property, plant and equipment

The Corporation plans to utilize the IFRS 1 election to measure its land and building as of the date of transition to IFRS at its fair value, and use that fair value as its deemed cost on a go-forward basis. The use of this exemption results in an increase to retained earnings at January 1, 2010, of \$23,225,000.

Financial instruments

The Corporation plans to utilize the IFRS 1 election that allows it to change the designation of its financial instruments upon transition to IFRS. Upon transition, all investments are planned to be designated as fair value through profit and loss rather than their current designation as available for sale. This will result in changes in unrealized gains and losses on investments being recognized in the statement of operations, rather than through other comprehensive income. This accounting policy change results in an increase to retained earnings of \$19,833,000 and an offsetting decrease to accumulated other comprehensive income at January 1, 2010.

Insurance contracts

The Corporation plans to utilize the IFRS 1 exemption, which allows the Corporation to disclose only five years of data in its loss development tables, consistent with the transitional provision of IFRS 4, Insurance Contracts. The disclosure will be increased in each subsequent year, until a full 10 years of information is included.

Under Canadian GAAP, the Corporation does not discount its provision for unpaid claims for all lines of business. In transitioning to IFRS, the Corporation is changing this policy to discount the provision for unpaid claims and the associated unpaid claims recoverable from reinsurers for all lines of business. At January 1, 2010, the impact to retained earnings of adopting full discounting is an increase to retained earnings of \$7,475,000.

Business combinations

The Corporation plans to utilize the IFRS 1 exemption, which allows the Corporation the option to apply IFRS 3, Business Combinations, prospectively from the transition date. If this exemption was not used, IFRS would require the restatement of all business combinations that occurred prior to the transition date. As such, business combinations have not been restated. As a result of applying this exemption, goodwill and non-controlling interest arising on business combinations prior to the transition date have not been adjusted from the carrying value previously determined under Canadian GAAP.

Leases

The Corporation plans to utilize the IFRS 1 exemption with regards to determining if an arrangement contains a lease. This exemption eliminates the requirement for the Corporation to re-assess the determination of whether an arrangement contains a lease at the date of transition if the conclusion reached under Canadian GAAP is the same as the conclusion that would have been reached under IFRS.

Related Party Transactions

The Corporation is related in terms of common ownership to all Government of Saskatchewan ministries, agencies, boards, commissions, Crown corporations and jointly controlled and significantly influenced corporations and enterprises. Transactions with these entities were entered into in the normal course of business and are settled at prevailing market prices under normal trade terms. Further details regarding these related party transactions are disclosed in note 17 of the consolidated financial statements. Details of other significant related party transactions disclosed in the consolidated financial statements follow.

Sgi is the administrator of the Saskatchewan Auto Fund on behalf of the Province of Saskatchewan. SGI CANADA incurs administrative and claim adjustment expenses on behalf of the Auto Fund, which are charged to the Auto Fund. Amounts incurred by SGI CANADA and charged to the Auto Fund were \$119.1 million (2009 – \$112.4 million).

The Corporation, as the lessor, has an interest in a capital lease in Prince Albert, Saskatchewan, with the Ministry of Government Services, a provincial government ministry. This lease expires in April 2011. Further details of this lease are provided in note 7 to the consolidated financial statements.

The Corporation had direct premiums that were brokered through Charlie Cooke Insurance Agency Ltd. (CCIA), pays loss adjustment fees to Atlantic Adjusting & Appraisals Ltd. (AAA) and had premiums financed for policyholders by Maritime Finance & Acceptance Corporation (MFAC). These companies are affiliated with the minority shareholder of ICPEI, who is a member of ICPEI's senior management. The policies written and the loss adjustment expenses paid are routine operating transactions in the normal course of business. Details of the transactions and amounts outstanding are included in note 17 to the consolidated financial statements.

On June 1, 2010, the Corporation, through its subsidiary, ICPEI, loaned the primary shareholders of CCIA \$1,146,000 (two loans of \$605,000 and \$541,000 with consistent terms and conditions) in order to fund their purchase of the Corporation's minority interest in CCIA (note 5). Subsequent to the sale, the Corporation and CCIA are no longer related. The loans require 10 equal annual payments of \$128,790, including principal and interest, beginning on March 31, 2011. The loans accrue interest at an effective annual rate of 2.25% and are secured by a general security agreement covering all assets of CCIA.

On December 22, 2010, the Corporation, through its subsidiary, SGI CANADA Insurance Services Ltd., loaned the purchaser of MFAC and AAA \$343,000 (two loans of \$181,000 and \$162,000 with consistent terms and conditions) in order to fund their purchase of the MFAC and AAA shares (note 5). The loans require seven equal annual payments of \$57,000 including principal and interest, beginning on March 31, 2011. The loans accrue interest at an effective annual rate of 4.00% and are secured by a general security agreement covering all assets of MFAC and AAA, and guarantees from the purchaser.

In 2007, the Corporation provided CCIA a \$450,000 loan for the purpose of purchasing a brokerage. The terms of the agreement provide for repayment in six annual instalments of \$75,000 and require CCIA to maintain minimum premium limits. At December 31, 2010, the loan is recorded at its amortized cost of \$206,000 (2009 – \$268,000), calculated by discounting the scheduled instalments at an interest rate that reflects the term and credit risk associated with the loan. During the year, \$75,000 (2009 – \$75,000) was repaid and interest revenue of \$13,000 (2009 – \$17,000) was recorded through investment earnings.

One Board member owns an organization that sells insurance policies of the Corporation. Premiums written during the year from this organization amounted to \$4.4 million (2009 – \$4.4 million) and the associated accounts receivable at December 31, 2010, was \$775,000 (2009 – \$887,000). Commissions related to these premiums were \$824,000 (2009 – \$792,000). The above noted transactions are routine operating transactions in the normal course of business.

Off-Balance Sheet Arrangements

SGI CANADA, in its normal course of operations, enters into certain transactions that are not required to be recorded on its Consolidated Statement of Financial Position – commonly referred to as the balance sheet. These items include litigation, structured settlements and a long-term telecommunications contract. These items are discussed below and in notes 8 and 21 to the consolidated financial statements.

The Corporation, as is common in the P&C insurance industry, is subject to litigation arising in the normal course of its operations, primarily in claim settlements. The Corporation is of the opinion that current litigation will not have a material impact on its operations, financial position or cash flows.

Also, the Corporation and its subsidiaries, in the normal course of settling claims, settle some long-term disability claims by purchasing structured settlements (annuities) from various financial institutions for its claimants. This is a common practice in the P&C industry. The net present value of the scheduled payments at December 31, 2010, was \$49.2 million (2009 – \$49.5 million).

The Corporation provides a financial guarantee to the claimant in the event of default by the financial institution on the payment schedule to the claimant. No default has occurred in the past on these payment schedules and the Corporation considers the likelihood of such default as being remote.

The Corporation has secured a long-term telecommunications contract with a related provincial Crown corporation that is scheduled to end in 2011. At December 31, 2010, the remaining commitment under these contracts was \$790,000 (2009 – \$2.4 million). The Corporation is also committed until 2011 for a systems support contract. At December 31, 2010, the remaining commitment is \$1.1 million (2009 – \$688,000). Each subsidiary is committed to leases on their office premises. Annual commitments related to these leases range between \$20,000 to \$427,000 over the next five years.

Critical Accounting Estimates

This discussion and analysis of the Corporation's financial condition and results of operations is based upon its consolidated financial statements as presented in this annual report. These consolidated financial statements have been prepared in accordance with Canadian GAAP, as recommended by the Canadian Institute of Chartered Accountants. Significant accounting policies are contained in note 2 to the consolidated financial statements. Some of these policies involve critical accounting estimates because they require management to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or by using different assumptions.

The Corporation has discussed the development, selection and application of its key accounting policies, and the critical accounting estimates and assumptions they involve, with the Audit and Finance Committee of the Board of Directors. The Audit and Finance Committee has reviewed the disclosures described in this section. The most significant critical accounting estimates involve the provision for unpaid claims, impairment of investments, reinsurance, income taxes and employee future benefits.

Provision for unpaid claims

A provision for unpaid claims is maintained to cover the estimated ultimate liability for losses and loss adjustment expenses for reported claims and claims incurred but not yet reported (IBNR) as at the end of each accounting period. The initial provision is determined on the reported facts filed with the claim and then revised regularly, as more information on the claim becomes known. The provision does not represent the exact calculation of the liability owing to claimants, but is an estimate developed using Canadian accepted actuarial practices and Canadian insurance regulatory requirements. The estimate reflects an expectation of the ultimate cost of settlement and administration of claims. It involves an assessment based on the facts and circumstances of the events reported in the claim, the Corporation's experience with similar claims, historical trends involving claim payments, claim severity, the effect of inflation on reported and future claims, court decisions and the timeframe anticipated to settle and pay the claim.

This provision is refined on a continual basis as prior fiscal year claims are settled and additional claims are reported and settled. There may be significant time delays from the occurrence of the insured event and when it is reported. If this occurs near the year-end date, estimates are made as to the value of these claims based on information known to the Corporation. As well, uncertainty exists for reported claims that are not settled, as all necessary information may not be available. Thus, with the level of uncertainty involved in the claim process until the final settlement occurs, current reserves may not be sufficient. As permitted by Canadian GAAP, the Corporation only discounts long-term disability claims included in this provision. Any adjustments to these estimates, both positive (a redundancy or excess) and negative (a deficiency) are included in the provision for unpaid claims and are reflected as claims incurred in the current year's Consolidated Statement of Operations.

Impairment of investments

When the market value of an investment falls below its cost, accounting standards require an assessment of whether the impairment in value is temporary or other than temporary. If it is determined that the impairment is other than temporary, the investment must be written down to market value. Management performs a quarterly analysis of investment holdings to determine if declines in market value of a particular investment are other than temporary. This analysis includes:

- Identifying all security holdings in an unrealized loss position that have existed for at least 12 months.
- Evaluating the size of the loss, both in percentage and absolute dollar terms relative to the market outlook for the security.
- For debt securities, evaluating the credit ratings from third-party security rating agencies or evaluating any change in payments on the security.

Investments are written down to market value if it is determined that the loss is other than temporary, or if the investment manager has plans for disposition of the security in the near term.

Reinsurance

Reinsurance recoverable includes amounts for expected recoveries related to claim liabilities, as well as the portion of the reinsurance premium that has not yet been earned. The cost of reinsurance is accounted for over the terms of the underlying reinsurance policies using assumptions consistent with those used to account for the policies. Amounts recoverable from reinsurers are estimated in a manner consistent with claim and claim adjustment expense reserves, and are reported in the Consolidated Statement of Financial Position. The ceding of insurance does not discharge the Corporation's primary liability to its insureds. An estimated allowance for doubtful accounts is recorded on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, management's experience and current economic conditions.

Income taxes

The provision for income taxes is calculated based on the expected tax treatment of transactions recorded in the consolidated financial statements. In determining the provision for income taxes, the Corporation interprets tax legislation in a variety of jurisdictions and makes assumptions about the expected timing of the reversal of future tax assets and liabilities and the valuation of future income tax assets.

Management makes assumptions regarding the value of future tax assets using a valuation allowance. This allowance is based on management's assessment of whether it is more likely than not that the Corporation will utilize tax assets before they expire. This assessment is based on expected future earnings, tax rates, the amount of taxable income in future years and the timing of the reversal of future tax liabilities. No valuation allowance has been recorded in the current or prior year.

Employee future benefits

The Corporation's benefit expense for its defined benefit pension plan and defined benefit service recognition plans is calculated by the Corporation's external benefits actuary utilizing management's best estimate of critical assumptions. These critical assumptions consist of: expected plan investment performance, salary escalation, age at retirement, mortality of members and future pension indexing. Management reviews and adjusts these assumptions as required on an annual basis. The financial impact of changing these assumptions, along with actual experience being different from the assumptions, is reflected in income on the Consolidated Statement of Operations.

The end of period discount rate is determined at each year-end using market rates of high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments.

Further details of the Corporation's defined benefit plans are contained in note 16 to the consolidated financial statements.

Risk Management

Risk Management is a process for recognizing and addressing risks that could affect the achievement of corporate objectives. On an annual basis, management reviews the key risks faced by SGI CANADA by identifying specific risk events and their potential impact on the Corporation's operations, finances and reputation. Each risk event is rated based on the likelihood of the event occurring and severity of the consequences if it did occur, both before and after the application of potential mitigations.

The above process results in a risk profile for the Corporation, which is reviewed by the Risk Committee of the Board of Directors. SGI's Audit Services department also uses the risk profile in developing its annual work plan, which provides an assurance component to SGI's risk management process.

The following risks represent the most serious threat to SGI CANADA. Failure to manage any of these risks could lead to significant operational, financial or reputational damage. The nature of these risks, along with efforts to mitigate them, is summarized below.

Significant privacy breach

Risk: Personal information held by SGI CANADA for a large number of customers is lost, accessed or disclosed to an unauthorized party, resulting in adverse legal, regulatory and financial consequences, as well as a loss in confidence by customers and the shareholder.

Mitigation: Specific guidelines on how to handle personal information have been developed and, to improve employees' awareness of corporate privacy obligations, online privacy training and the annual sign-off of the Code of Ethics and Conduct, and the Confidentiality and Non-Disclosure Agreement is required for all staff. SGI CANADA has also implemented payment card standards that do not allow the retention of electronic customer credit card information and minimizes the exposure for paper-based sources. In 2009, the Corporation began conducting privacy audits in areas that handle customer information, and continues to work on the development of administrative, physical and technical safeguards to reduce the likelihood and magnitude of a privacy breach.

Competition

Risk: Changes to the competitive landscape lead to reduced margins and/or loss of market share. These changes include use of data and technology to target customers and the acquisition of business through the Internet.

Mitigation: SGI CANADA's response to increased competition has been through providing superior service to its broker network including broker training on new products and technology. Outside Saskatchewan, SGI CANADA has improved brokers' contingent profit commission and appointed brokers that utilize the Internet to attract customers. To become more market-focused, SGI CANADA is reorganizing its underwriting function using a product management approach, and is developing a marketing strategy to increase the focus on customer requirements.

Catastrophic claims loss

Risk: An event loss in excess of reinsurance limits, an aggregation of large losses within the corporate net retention or the failure of a reinsurer could result in major financial losses for SGI CANADA.

Mitigation: SGI CANADA's reinsurance limits were determined based on independent catastrophe modeling, using a 1-in-250-year event assumption to calculate probable maximum loss. To mitigate the risk of reinsurer failure, SGI CANADA and its reinsurance brokers monitor the reinsurer rating provided by AM Best, and Standard and Poors.

Transfer and acquisition of expertise

Risk: SGI CANADA is unable to build and maintain the knowledge, skill and experience within the organization's workforce needed to thrive now and in the future, resulting in lower productivity, higher operating costs and higher health and safety concerns from overworked employees. Challenges include retirements, recruitment of qualified personnel in a tight labour market and the need to support an analytical culture.

Mitigation: SGI CANADA has implemented a number of programs in this area, including competency-based recruitment, mentoring programs and the monitoring of workplace engagement and strategic clarity through employee surveys. A corporate learning strategy was created in 2008 to grow people talent in support of a high-performing organization, and SGI CANADA has devoted additional resources to training and development. SGI's succession planning process focuses on ensuring current senior management positions have backups and identifying high performing staff who have potential for more senior roles.

Systems security

Risk: The security of SGI CANADA's systems is compromised by a virus attack, system breach, or unauthorized access to confidential or sensitive information by internal or external parties, resulting in significant financial and reputational damage.

Mitigation: SGI CANADA created an Information Technology Security Policy in 2009, which includes corporate standards for user access (including remote and external vendor access), passwords, physical security and wireless networks. Antivirus, email filtering, firewalls and intrusion monitoring are used, and the Corporation has a formal disposal process for all systems hardware. SGI has also developed incident response procedures to decrease the severity of a breach, should one occur.

Customer focus

Risk: SGI CANADA is unable to identify or anticipate the needs of its policyholders and brokers, meet those needs due to lack of internal collaboration or utilize the Internet to market products due to its commitment to the broker distribution channel, leading to a loss of customers and market share.

Mitigation: SGI CANADA identifies the needs of its customers through claims customer surveys, broker surveys and councils, as well as feedback from regional representatives, and works with the broker community to address gaps in products or service. Annual product reviews are conducted internally to identify pricing and coverage changes. As noted above, SGI CANADA is also developing a marketing strategy to increase the focus on customer requirements, which will include promoting the benefits of working with a broker and encouraging brokers to initiate selling over the Internet.

Distribution channel – broker partnership

Risk: Commitment to the broker system leads to vulnerability to new, more efficient product distribution systems, and thus a loss of policyholders. Conflicts between broker and policyholder needs lead to unhappy brokers, resulting in a loss of market share.

Mitigation: SGI CANADA has developed eServices to improve the speed, accuracy and ease with which brokers work with the Corporation. As noted above, SGI CANADA works to understand broker and policyholder needs, and consults with the broker community when developing new products or services.

Product design and pricing

Risk: Inferior product design or inaccurate pricing leads to uncompetitive and unprofitable products, loss of business and loss of confidence by policyholders and brokers.

Mitigation: To insure its products are designed and priced appropriately, SGI CANADA monitors insurance market developments, legal decisions and societal trends. Coverages and wordings are reviewed regularly and product lines are reviewed in detail annually. Deployment of the Product Management division is also expected to assist this process by increasing the use of actuarial expertise in product pricing.

Leadership

Risk: Poor strategic planning, poor communication or a lack of integrity or ethical behaviour lead to low morale and staff engagement, as well as declining revenue and profitability.

Mitigation: SGI's purpose and ideals are defined clearly in the corporate vision and values statements, and the Corporation promotes leadership and customer service in its training programs. The corporate commitment to privacy and ethical behaviour is reinforced through the annual review and sign-off by all employees of the Code of Ethics and Conduct. The 2011-15 strategic plan was developed with the feedback of employees and other stakeholders, and provides a detailed plan for the future of the Corporation.

Market value losses

Risk: Significant fluctuations in market values or a failure to apply the Investment Policy leads to losses on investment portfolios, reducing investment earnings and capital bases.

Mitigation: Investment portfolio management is governed by the Statement of Investment Policies and Goals (SIP&G), which sets out specific investment quality and quantity guidelines that are in line with industry standards defined by the Insurance Companies Act (Canada). The SIP&G is reviewed annually by the Investment Committee of SGI CANADA's Board of Directors, to ensure portfolio risk is acceptable based on both historical and forward-looking volatility. Portfolios are monitored externally by the investment consultant and custodian to ensure compliance with policy guidelines and investment performance standards.

Outlook for 2011

In 2010, SGI CANADA was challenged by significant storm activity, and responded well providing important protection and prompt service to its customers who experienced losses. While the storms impacted profitability in 2010, a strong reinsurance program, diversified operations and favourable investment earnings assisted in offsetting the storm losses.

SGI CANADA benefited from strong investment market returns in 2010. However, as evidenced over the past three years, significant variability can occur in investment returns. To protect the Corporation from an expected rise in interest rates as the world economy continues its recovery, the fixed income portfolio was restructured in 2010 to match the claim liability cash flows. This asset liability matching strategy will assist with mitigating the overall impact of interest rate risk on both investment returns and long-term claim costs into the future.

In 2011, the Corporation will continue its focus of underwriting risks profitably in the markets it operates in. With Saskatchewan representing the most significant portion of SGI CANADA's book of business, efforts to maintain market share in a growing province will continue. This will be accomplished by providing excellent customer service and a comprehensive suite of products. Additionally, the Corporation will be focusing on educating Saskatchewan brokers and consumers about loss prevention.

Diversification efforts to spread risk geographically will continue, and given the significant concentration of storm losses in Saskatchewan, spread of risk will continue to assist with minimizing the impact of potential future weather events. The focus of diversification will be profitable, controlled growth in the markets SGI CANADA currently operates in, with no plan to enter new territories.

Outside of Saskatchewan, Ontario is the Corporation's largest operating segment. As Canada's largest insurance market, Ontario is an important market that continues to underperform in regards to automobile insurance. The Ontario auto marketplace is a challenge, not only for SGI CANADA, but the Ontario insurance industry in general. New automobile insurance reforms became effective September 1, 2010, however, the impact the reforms will have on the auto market remains to be seen. The Corporation remains focused on disciplined underwriting in this important and growing operating segment.

Considering the Corporation has been operating in Alberta only since mid-2006, it has grown quickly as an important operating segment. The Corporation plans to continue to work on growing a balanced, profitable premium base in Alberta. Manitoba is a more established market, yet still provided premium growth for the Corporation in 2010. In both Alberta and Manitoba, there will be a continuing focus on broker management and providing excellent customer service to the brokers.

Maritime growth will be driven by New Brunswick and Nova Scotia operations in 2011, and the Corporation will continue to work on improving underwriting profitability related to the property lines of business. To accomplish this, the focus will remain on maintaining its underwriting discipline and providing strong service to its brokers. The Corporation benefits from senior management with a sound understanding of the Maritime market and its presence as a local insurer with local management is viewed favourably within the Maritime market.

The Corporation's expectations are ambitious given the highly competitive, ever-changing insurance industry it operates in. Competitors continue to become more sophisticated and competition from new sources, such as direct writers, is becoming more relevant. Financially, SGI CANADA is positioned well to continue to be successful, as it maintains a healthy capitalization.

In addition, the Corporation's new strategic plan also positions the Corporation well leading into 2011 and beyond. One specific aspect of the plan is a restructuring that has occurred to establish a Product Management division to focus on the profitability of products, new product development and market and competitor analysis. Product Management will be supported by a new dedicated marketing function, which will be responsible for the delivery of current and new products in all of the Corporation's markets.

The new strategic plan also recognizes the important role technology will play. An eServices strategy has been established with an objective to gain efficiencies and improve productivity in both the Corporation's and its brokers' business processes, adding value to the broker partnership and improving overall competitiveness. In addition, the Corporation has embarked on a business intelligence project that leverages data to assist with obtaining more profitable business, more accurately pricing risks and better managing and controlling claim costs. Phased-in implementation of aspects of this project will begin in late 2011.

Heading into 2011, SGI CANADA has the expertise of its employees and a clear strategic direction to guide the Corporation to continued success in the competitive Canadian insurance marketplace.

RESPONSIBILITY FOR *financial statements*

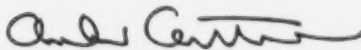
The consolidated financial statements are the responsibility of Management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of Management, the consolidated financial statements fairly reflect the financial position, results of operations and cash flows of Saskatchewan Government Insurance (the Corporation) within reasonable limits of materiality.

Preparation of financial information is an integral part of Management's broader responsibilities for the ongoing operations of the Corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. In this regard, an annual statement of management responsibility is provided on the following page. In addition, the adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies. The actuary also makes use of Management information provided by the Corporation and the work of the external auditors in verifying the data used in the valuation.

The consolidated financial statements have been examined and approved by the Board of Directors. An Audit and Finance Committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation and the external auditors. These external auditors have free access to this committee, without Management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

As appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan, KPMG have been appointed external auditors. Their responsibility is to report to the Members of the Legislative Assembly regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the consolidated financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and her report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.



Andrew R. Cartmell
President and Chief Executive Officer


Jeff Stepan
Chief Financial Officer

February 24, 2011

ANNUAL STATEMENT OF *management responsibility*

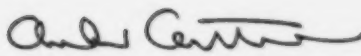
I, Andrew Cartmell, President and Chief Executive Officer, and I, Jeff Stepan, Chief Financial Officer, certify the following:

That we have reviewed the consolidated financial statements included herein. Based on our knowledge, having exercised reasonable diligence, the consolidated financial statements fairly present, in all material respects, the financial condition, results of operations and cash flows, as of December 31, 2010.

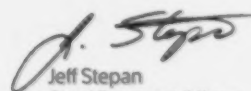
That based on our knowledge, having exercised reasonable diligence, the consolidated financial statements do not contain any untrue statements of material fact, or omit to state a material fact that is either required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made.

That SGI CANADA (the Corporation) is responsible for establishing and maintaining effective internal control over financial reporting, which includes safeguarding of assets and compliance with applicable legislative authorities; and, the Corporation has designed internal controls over financial reporting that are appropriate to its circumstances.

That the Corporation conducted its assessment of the effectiveness of its internal controls over financial reporting and, based on the results of this assessment, it can provide reasonable assurance that internal controls over financial reporting as of December 31, 2010, were operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting.



Andrew R. Cartmell
President and Chief Executive Officer



Jeff Stepan
Chief Financial Officer

February 24, 2011

ACTUARY'S *report*

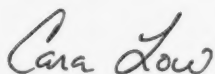
To the Board of Directors of
Saskatchewan Government Insurance

I have valued the policy liabilities of SGI CANADA for its consolidated statement of financial position at December 31, 2010, and their change in the consolidated statement of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods, except as described below.

I am satisfied that the data utilized for the valuation of these liabilities are reliable and sufficient. I verified the consistency of the valuation data with the company financial records.

In accepted actuarial practice, the valuation of policy liabilities reflects the time value of money. Management required that the valuation of some policy liabilities not reflect the time value of money, which is permissible under Canadian generally accepted accounting principles for financial reporting purposes. My valuation complies with that practice.

In my opinion, except as noted in the previous paragraph, the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the consolidated financial statements fairly present the results of the valuation.



Cara Low
Assistant Vice President, Corporate Actuary
Saskatchewan Government Insurance
Fellow, Canadian Institute of Actuaries

February 24, 2011

INDEPENDENT AUDITORS' report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the accompanying consolidated financial statements of Saskatchewan Government Insurance ("the Entity"), which are comprised of the consolidated statement of financial position as at December 31, 2010, and the consolidated statements of operations, comprehensive income, changes in Province of Saskatchewan's equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Saskatchewan Government Insurance as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP
Chartered Accountants
Regina, Canada

February 24, 2011

CONSOLIDATED STATEMENT OF *financial position*

December 31

2010

2009

(thousands of \$)

Assets

Cash and cash equivalents (note 3)
Accounts receivable (note 4)
Deferred policy acquisition costs
Reinsurers' share of unearned premiums
Future income taxes (note 12)
Investments (note 5)
Unpaid claims recoverable from reinsurers
Property, plant and equipment (note 6)
Other assets (note 7)

\$	27,809	\$	16,920
	127,479		125,334
	56,204		52,412
	9,835		9,480
	1,782		1,406
	591,219		579,730
	44,132		29,626
	11,121		8,746
	3,234		3,783

\$	872,815	\$	827,437
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Liabilities

Accounts payable and accrued liabilities
Dividend payable
Premium taxes payable
Amounts due to reinsurers
Unearned reinsurance commissions
Unearned premiums
Provision for unpaid claims (note 8)

\$	29,292	\$	39,476
	15,462		22,199
	18,856		17,474
	5,960		4,578
	3,183		3,051
	242,497		218,893
	316,820		293,575

	632,070		599,246
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	2,428		1,879
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Non-controlling interest

Province of Saskatchewan's equity

Equity advances (note 9)
Retained earnings
Accumulated other comprehensive income

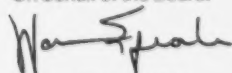
	80,000		80,000
	131,315		126,479
	27,002		19,833

	238,317		226,312
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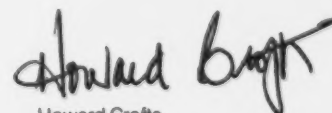
\$	872,815	\$	827,437
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Commitments and contingencies (note 21)
(see accompanying notes)

On behalf of the Board:



Warren Sproule, Q.C.
Chair Person, Board of Directors



Howard Crofts
Director

CONSOLIDATED STATEMENT OF *operations*

year end December 31

	2010	2009
	(thousands of \$)	
Gross premiums written	\$ 464,591	\$ 421,090
Net premiums written	\$ 430,560	\$ 393,914
Net premiums earned	\$ 407,493	\$ 370,555
Claims incurred	240,017	189,611
Commissions	86,019	80,466
Administrative expenses	49,902	48,610
Premium taxes	19,279	17,571
Facility Association participation (note 19)	(786)	482
Total claims and expenses	394,431	336,740
Underwriting profit	13,062	33,815
Investment earnings (note 11)	38,283	19,572
Income before income taxes and non-controlling interest	51,345	53,387
Income taxes (note 12)	2,543	1,003
Income after income taxes and before non-controlling interest	48,802	52,384
Non-controlling interest	446	17
Net income	\$ 48,356	\$ 52,367

(see accompanying notes)

CONSOLIDATED STATEMENT OF *comprehensive income*

year ended December 31

2010

2009

(thousands of \$)

Net income	\$ 48,356	\$ 52,367
Other comprehensive income, net of income taxes:		
Net unrealized income on available for sale financial assets arising during the year	25,196	30,414
Income tax expense	(1,566)	(2,288)
	23,630	28,126
Reclassification of net realized gains on sale of investments included in net income	(17,350)	(2,272)
Reclassification for investment write-downs included in net income	464	3,965
Income tax expense	425	332
	(16,461)	2,025
Other comprehensive income	7,169	30,151
Comprehensive income	\$ 55,525	\$ 82,518

(see accompanying notes)

CONSOLIDATED STATEMENT OF *changes in province of saskatchewan's equity*

year ended December 31

	2010	2009
	(thousands of \$)	
Equity advances		
Balance, end of year	\$ 80,000	\$ 80,000
Retained earnings		
Balance, beginning of year	\$ 126,479	\$ 108,151
Net income	48,356	52,367
Dividend	(43,520)	(34,039)
Balance, end of year	\$ 131,315	\$ 126,479
Accumulated other comprehensive income (loss)		
Balance, beginning of year	\$ 19,833	\$ (10,318)
Other comprehensive income	7,169	30,151
Balance, end of year	\$ 27,002	\$ 19,833
Total Province of Saskatchewan's equity	\$ 238,317	\$ 226,312

(see accompanying notes)

CONSOLIDATED STATEMENT OF *cash flows*

year ended December 31

2010

2009

(thousands of \$)

Cash provided by (used for):

Operating activities

Net income	\$ 48,356	\$ 52,367
Non-cash items:		
Amortization	3,701	2,646
Net realized gain on sale of investments	(17,350)	(2,272)
Future income taxes	(376)	1,207
Investment write-downs	464	3,965
Non-controlling interest	446	17
Income from investments accounted for on the equity basis	(205)	(206)
Change in non-cash operating items (note 15)	17,632	10,708

52,668

68,432

Investing activities

Purchases of investments	(531,726)	(464,894)
Proceeds on sale of investments	543,069	419,856
Repayment of capital lease	539	488
Purchases of property, plant and equipment	(3,404)	(14)

8,478

(44,564)

Financing activities

Dividends paid	(50,257)	(19,247)
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Increase in cash and cash equivalents

10,889

4,621

Cash and cash equivalents, beginning of year

16,920

12,299

Cash and cash equivalents, end of year

\$ 27,809

\$ 16,920

Supplemental cash flow information:

Income taxes paid	\$ 1,655	\$ 573
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(see accompanying notes)

NOTES to the consolidated financial statements

December 31, 2010

1. Nature of Operations

Saskatchewan Government Insurance (the Corporation or SGI), which operates under the trade name of SGI CANADA, conducts a property and casualty insurance business in the province of Saskatchewan and in other provinces of Canada through its wholly-owned subsidiary SGI CANADA Insurance Services Ltd. SGI CANADA Insurance Services Ltd. operates directly in Alberta and Manitoba, in Ontario through its wholly-owned subsidiary Coachman Insurance Company (Coachman) and in Prince Edward Island, New Brunswick and Nova Scotia through its 75%-owned subsidiary, The Insurance Company of Prince Edward Island (ICPEI).

In many provinces in Canada, automobile insurance premium rates are regulated by provincial government authorities. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. The Corporation's automobile premiums are subject to rate regulation in Alberta, Ontario, Prince Edward Island, New Brunswick and Nova Scotia and represent approximately 13.8% (2009 – 11.9 %) of the Corporation's consolidated net premiums earned.

SGI was established as a branch of the Public Service by *The Government of Saskatchewan Act, 1944*, reorganized pursuant to *The Saskatchewan Government Insurance Act, 1946*, and continued under the provisions of *The Saskatchewan Government Insurance Act, 1980*. SGI also acts as administrator of the Saskatchewan Auto Fund under the provisions of *The Automobile Accident Insurance Act*. As a provincial Crown corporation, SGI is not subject to federal or provincial income taxes, however SGI CANADA Insurance Services Ltd., Coachman and ICPEI are subject to federal and provincial income taxes.

As a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), the consolidated financial results of the Corporation are included in the consolidated financial statements of CIC.

2. Significant Accounting Policies

The accounting policies of the Corporation are in accordance with Canadian generally accepted accounting principles (GAAP).

In March 2009, the Canadian Accounting Standards Board reconfirmed that Canadian GAAP for publicly accountable enterprises, including Government Business Enterprises (GBEs), will be replaced by International Financial Reporting Standards (IFRS) for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, these financial statements will be the last prepared by the Corporation as a GBE under pre-conversion Canadian GAAP, and the conversion to IFRS will be applicable to the Corporation's reporting for the first quarter of 2011, for which current and comparative information will be prepared under IFRS. The Corporation will also present an opening IFRS statement of financial position as at January 1, 2010, the Corporation's date of transition, as part of the Corporation's 2011 interim and annual financial statements.

The following are considered to be the Corporation's significant accounting policies:

Consolidation

The consolidated financial statements include the accounts of the Corporation and the consolidated accounts of its 100%-owned subsidiaries, SGI CANADA Insurance Services Ltd. and Coachman and its 75%-owned subsidiary, ICPEI. All inter-company accounts and transactions have been eliminated on consolidation.

Measurement uncertainty

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation processes are related to the actuarial determination of the provision for unpaid claims (note 8), investment valuation (note 5), income taxes (note 12) and employee future benefits (note 16).

Financial assets and liabilities

The measurement basis for financial assets and financial liabilities depends on whether the financial assets and liabilities have been classified as held for trading, available for sale, held to maturity, loans and receivables or other financial liabilities. Financial assets and liabilities classified as held for trading are measured at fair value. Those changes in fair value are recognized in net income. Financial assets classified as available for sale are measured at fair value with unrealized changes in fair value recorded in other comprehensive income; however, unrealized losses considered other than temporary continue to be recognized as a decrease to net income. Financial assets designated as held to maturity, loans and receivables or other financial liabilities are measured at amortized cost using the effective interest method. The Corporation has no financial assets and liabilities designated as held for trading or held to maturity.

The Corporation has designated its cash and cash equivalents and its investments as available for sale, except for investments accounted for on the equity basis, which are exempt from the above requirement. Accounts receivable are designated as loans and receivables. Accounts payable, dividend payable and premium taxes payable are designated as other financial liabilities. The net investment in capital lease, the accrued pension asset, unpaid claims recoverable from reinsurers, amounts due to reinsurers and the provision for unpaid claims are exempt from the above requirement.

Investments

All investments are carried at fair value, except preferred shares and investments accounted for on the equity basis. The fair value of short-term investments is based on cost, which approximates fair value due to the immediate or short-term nature of these financial instruments. The fair value of bonds and debentures and common shares is determined using quoted market values based on the latest bid prices. The fair value of pooled equity funds is based on the quoted market values of the underlying investments, which is based on the latest bid prices. The fair value of the pooled mortgage fund is based on the market values of the underlying mortgage investments, calculated by discounting scheduled cash flows through to the estimated maturity of the mortgage using interest rates that reflect the term and credit risk associated with the mortgage.

Preferred shares are carried at cost as the fair value cannot be estimated reliably. Investments accounted for on the equity basis are recorded using the equity method, whereby the Corporation's investment is adjusted for its share of the investee's net earnings or losses and reduced by dividends received.

The Corporation records its investment purchases and sales on a trade-date basis, which is the date when the transactions are entered into.

Investment earnings

The Corporation recognizes interest, premium financing and capital lease revenue as earned, dividends when declared, pooled fund revenue when a distribution is declared, and investment gains and losses when realized.

Interest revenue includes amortization of any premium or discount recognized as of the date of purchase of the security. Amortization is calculated using the effective interest method. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base. Interest is generally receivable on a semi-annual basis.

Transaction costs are included in the acquisition cost of individual investments. Direct investment expenses, such as external custodial, investment management and investment consultant expenses, are recorded against investment earnings.

When the fair value of an investment falls below its cost, and the decline is determined to be other than temporary, a loss equivalent to the difference between cost and fair value is recorded in investment earnings as an investment write-down.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in effect at the year-end date. Revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized gains and/or losses arising on translation are charged to operations in the current year. Unrealized foreign exchange gains and/or losses arising on investments designated as available for sale are included in other comprehensive income until realized, at which time they are reclassified from accumulated other comprehensive income to investment earnings. Translation gains and/or losses related to other financial assets and liabilities are charged to operations in the current year.

Premiums

Premiums written are taken into income over the terms of the related policies, no longer than 12 months. Unearned premiums represent the portion of the policy premiums relating to the unexpired term of each policy.

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims at the year-end date. The estimate includes the cost of reported claims, and claims incurred but not reported, and an estimate of adjustment expenses to be incurred on these claims. The provision is calculated without discounting, except for long-term disability claims. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Reinsurance ceded

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts.

Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Current income taxes are recognized as estimated income taxes payable for the current year. Future income tax assets and liabilities consist of temporary differences between tax and accounting bases of assets and liabilities, as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

Employee future benefits

The Corporation provides a defined benefit pension plan and a defined contribution pension plan that provide retirement benefits for its employees.

Under the defined contribution pension plan, the Corporation's obligations are limited to contributions made for current service. When made, these contributions are charged to income.

For the defined benefit plan:

- i. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value, which approximates market value.
- ii. Pension obligations are determined by an independent actuary using the projected benefit method prorated on service and management's best estimate assumptions of expected plan investment performance, salary escalation, age at retirement, mortality of members and future pension indexing, based upon the consumer price index.
- iii. The discount rate used to determine the accrued benefit obligation was determined by reference to market interest rates at the measurement date of high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments.
- iv. Past service costs from plan amendments and the transitional asset are amortized on a straight-line basis over a period of time, which is a blending of the expected average remaining service lifetime of the active members and the future life expectancy of the pensioners.
- v. The excess of the net actuarial gain (loss) over 10% of the greater of the accrued benefit obligation and the fair value of the plan assets is amortized over a period of time, which is a blending of the expected average remaining service lifetime of the active members and the future life expectancy of the pensioners.

The Corporation provides defined benefit service recognition plans for both management and in-scope (union) employees for the purpose of providing certain retirement benefits. The cost of the plans is determined using the projected benefit method prorated on service.

Cash and cash equivalents

Cash and cash equivalents consist of money market investments with a maturity of 90 days or less from the date of acquisition, and are presented net of cash on hand less outstanding cheques.

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are charged to expense over the terms of the insurance policies to which such costs relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Net investment in capital lease

Investment earnings related to the direct financing lease are recognized in a manner that produces a constant rate of return on the investment in the lease. The net investment in the lease is composed of net minimum lease payments less unearned finance income.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the assets are placed in service, over their estimated useful lives as follows:

Building	40 years
Computer hardware and other equipment	3-5 years

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated, as of the date of the business combination, to the Corporation's reporting units that are expected to benefit from the synergies of the business combination. Goodwill is not amortized and is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired.

3. Cash and Cash Equivalents

	2010	2009
	(thousands of \$)	
Money market investments	\$ 26,448	\$ 22,300
Cash on hand, net of outstanding cheques	1,361	(5,380)
Total cash and cash equivalents	\$ 27,809	\$ 16,920

The average effective interest rate on money market investments is 1.0% (2009 – 0.2%).

4. Accounts Receivable

Accounts receivable is comprised of the following:

	2010	2009
	(thousands of \$)	
Due from insureds	\$ 76,192	\$ 63,331
Due from brokers	40,037	37,291
Facility Association (note 19)	4,051	3,951
Amounts recoverable on claims paid	2,207	5,212
Accrued investment income	2,048	2,520
Due from reinsurers	1,767	166
Other	969	309
Computer purchase plan	208	226
Investment proceeds receivable	—	12,328
Total accounts receivable	\$ 127,479	\$ 125,334

Included in due from insureds is \$71,794,000 (2009 – \$59,773,000) of financed premiums receivable, which represents the portion of policyholders' monthly premium payments that are not yet due. The majority of policyholders have the option to pay a portion of the premium when the policy is placed in force and the balance in monthly instalments. The policyholder pays an additional charge for this option, reflecting handling costs and the investment earnings that would have been earned on such premium, had the total amount been collected at the beginning of the policy period. The additional charge is recognized in investment earnings over the period of the policy.

5. Investments

The carrying values of the Corporation's investments are as follows:

	2010	2009
	(thousands of \$)	
Short-term investments	\$ 43,011	\$ 18,933
Bonds and debentures	366,985	393,128
Canadian common shares	74,658	68,330
U.S. common shares	23,094	22,637
Pooled funds:		
Canadian equity	18,007	17,287
United States equity	7,413	7,529
Non-North American equity	32,162	26,747
Mortgage	25,154	23,067
Preferred shares	735	735
Investments accounted for on the equity basis	—	1,337
Total investments	\$ 591,219	\$ 579,730

Details of significant terms and conditions, exposures to interest rate and credit risks of investments are as follows:

Short-term investments

Short-term investments are comprised of money market investments with a maturity of less than one year, but greater than 90 days from the date of acquisition. These investments have an average effective interest rate of 1.0% (2009 – 0.3%) and an average remaining term to maturity of 63 days (2009 – 54 days). The Corporation's investment policy states that investments must meet minimum investment standards of R-1, as rated by a recognized credit rating service.

Holdings for any one issuer, other than the Government of Canada or a Canadian province, are limited to 10% of the market value of the combined short-term investment and bond portfolios.

Bonds and debentures

The Corporation's investment policy states that the minimum quality standard for purchase of bonds and debentures is BBB, as rated by a recognized credit rating service.

The Corporation's investment policy limits its holdings for any one issuer, other than the Government of Canada or a Canadian province, to 10% of the market value of the combined bond and short-term investment portfolios. The holdings for any one province are limited to 20% of the market value of the bond portfolio. Foreign currency exposure is limited to 5% of the market value of the bond portfolio, and no more than 10% of the market value of the bond portfolio shall be invested in securities of foreign issuers.

The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

Term to maturity (years)	2010		2009	
	(thousands of \$)			
	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
Government of Canada:				
One or less	\$ 8,882	1.4%	\$ —	—
After one through five	170,998	2.2%	143,765	2.3%
After five	—	—	22,347	2.9%
Canadian provincial and municipal:				
One or less	206	1.8%	—	—
After one through five	40,886	2.3%	31,235	2.8%
After five	—	—	36,795	4.5%
Canadian corporate:				
One or less	3,815	2.0%	10,181	1.8%
After one through five	108,956	2.7%	99,851	3.0%
After five	33,242	4.1%	48,954	4.6%
Total bonds and debentures	\$ 366,985		\$ 393,128	

Common shares

Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. The average effective dividend rate is 1.8% (2009 – 2.2%).

The Corporation's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of the Corporation's common shares portfolio. As well, no single holding may represent more than 10% of the voting shares of any corporation.

Pooled funds

The Corporation owns units in Canadian, United States and non-North American pooled equity funds and a pooled mortgage fund. These pooled funds have no fixed distribution rate. Fund returns are based on the success of the fund managers.

Preferred shares

The preferred share investment provides for a 6.75% annual dividend payable semi-annually for the first five years. The rights of these shares will allow the holder to convert the preferred shares into that entity's common shares or allow the entity to redeem the preferred shares. The effective dividend rate is 6.8% (2009 – 6.8%).

The Corporation's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of the Corporation's portfolio. As well, no single holding may represent more than 10% of the voting shares of any corporation.

Investments accounted for on the equity basis

During the year, the Corporation disposed of its 21.25% ownership interest in Charlie Cooke Insurance Agency Ltd. (CCIA) and its 25% interest in Maritime Finance and Acceptance Corporation (MFAC) and Atlantic Adjusting and Appraisals Ltd. (AAA) for total proceeds of \$1,489,000. After recording income of \$205,000 and receiving \$35,000 of dividends during the year, the net book value of these companies was \$1,507,000, resulting in a net loss on sale of \$18,000. The purchasers are affiliated with the minority shareholder of ICPEI, who is a member of ICPEI's senior management. The transactions were in the normal course of operations.

Unrealized loss positions

The following table presents available for sale investments with unrealized losses where the decline is considered temporary. The unrealized losses are recorded as a component of accumulated other comprehensive income (loss).

	2010		2009	
	(thousands of \$)			
	Carrying Value	Unrealized Losses	Carrying Value	Unrealized Losses
Bonds and debentures:				
Federal	\$ 8,882	\$ (3)	\$ 87,165	\$ (491)
Provincial and municipal	5,458	(33)	20,956	(247)
Corporate	20,953	(106)	29,046	(365)
Canadian common shares	9,972	(543)	7,694	(465)
U.S. common shares	3,760	(301)	7,176	(498)
Pooled funds:				
Canadian equity	—	—	17,287	(1,807)
United States equity	—	—	7,529	(195)
Non-North American equity	—	—	26,747	(296)
	\$ 49,025	\$ (986)	\$ 203,600	\$ (4,364)

As at December 31, 2010, the cost of 33 (2009 – 131) available for sale investments exceeded their fair value by \$986,000 (2009 – \$4,364,000). The unrealized losses on the bonds and debentures arose primarily from changes in interest rates. For Canadian and U.S. common shares and pooled funds, the unrealized losses are primarily the result of investment-specific business environment factors associated with the underlying equity investments.

The Corporation conducts a quarterly review to identify and evaluate investments that show indications of impairment. An investment is considered impaired if its fair value falls below its cost, and a write-down is recorded in investment earnings when the decline is considered other than temporary. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been below cost, financial condition and near-term prospects of the issuer, and the ability to hold the investment for a period of time sufficient to allow for any anticipated recovery. During the year, investment write-downs of \$464,000 (note 11) were recorded related to impairments of Canadian common shares and non-North American pooled equity funds that were considered other than temporary (2009 – \$3,965,000, Canadian and U.S. common shares and U.S. and non-North American pooled equity funds).

Determination of fair value

Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. The determination of fair value requires judgment and is based on market information where available and appropriate. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation.

Level 1 – Where quoted prices are readily available from an active market.

Level 2 – Valuation model not using quoted prices, but still using predominantly observable market inputs, such as market interest rates.

Level 3 – Models using inputs that are not based on observable market data.

	2010			2009		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Short-term investments	\$ 43,011	\$ —	\$ 43,011	\$ 18,933	\$ —	\$ 18,933
Bonds and debentures	366,985	—	366,985	393,128	—	393,128
Canadian common shares	74,658	—	74,658	68,330	—	68,330
U.S. common shares	23,094	—	23,094	22,637	—	22,637
Pooled funds:						
Canadian equity	18,007	—	18,007	17,287	—	17,287
United States equity	7,413	—	7,413	7,529	—	7,529
Non-North American equity	32,162	—	32,162	26,747	—	26,747
Mortgage	—	25,154	25,154	—	23,067	23,067
	\$ 565,330	\$ 25,154	\$ 590,484	\$ 554,591	\$ 23,067	\$ 577,658

Preferred shares and investments accounted for on an equity basis are not included in the above fair value hierarchy table as preferred shares are carried at cost and the investments accounted for on the equity basis are recorded using the equity method.

6. Property, Plant and Equipment

The components of the Corporation's investment in property, plant and equipment, as well as the related accumulated amortization, are as follows:

	2010			2009
	(thousands of \$)			
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 972	\$ —	\$ 972	\$ 972
Building	23,136	16,437	6,699	7,487
Computer hardware and other equipment	19,515	16,065	3,450	287
Total	\$ 43,623	\$ 32,502	\$ 11,121	\$ 8,746

Amortization for the year is \$1,029,000 (2009 – \$604,000) and is included in administrative expenses on the Consolidated Statement of Operations.

7. Other Assets

Other assets are comprised of the following:

	2010	2009
	(thousands of \$)	
Accrued pension asset (note 16)	\$ 1,387	\$ 1,464
Prepaid expenses	1,224	1,157
Goodwill	481	481
Net investment in capital lease	142	681
Total	\$ 3,234	\$ 3,783

Net investment in capital lease

The Corporation, as lessor, has a 37% interest in a lease agreement with the Ministry of Government Services, a related party, for a term of 30 years (expiring April 2011) on property in Prince Albert, Saskatchewan. The lease transfers substantially all benefits and risks associated with the ownership of the property to the lessee. The total minimum lease payments receivable under the lease agreement are \$144,000 (2009 – \$727,000), payable by April 2011. Unearned income at December 31, 2010, is \$2,000 (2009 – \$46,000).

The fair value of the net investment in the capital lease is \$144,000 (2009 – \$744,000). The fair value is calculated by discounting scheduled cash flows through to the estimated expiration of the lease using current interest rates.

8. Provision for Unpaid Claims

Nature of unpaid claims

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the year-end date, and therefore, estimates are made as to the value of these claims. As well, uncertainty exists regarding the cost of reported claims that have not been settled, as all the necessary information may not be available at the year-end date.

Factors used to estimate the provision include the Corporation's experience with similar cases, historical claim payment trends, the characteristics of each class of business, claim severity and claim frequency, the effect of inflation on future claim settlement costs, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim, the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as physical damage or collision claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a number of individuals, which necessarily involves risk that actual results may differ materially from the estimates.

Changes in the estimate for the provision for unpaid claims are as follows:

	2010	2009
	(thousands of \$)	
Net unpaid claims, beginning of year	\$ 263,949	\$ 260,648
Payments made during the year relating to:		
Prior year claims	(85,463)	(77,895)
Prior year Facility Association claims	(1,102)	(1,291)
Excess relating to:		
Prior year estimated unpaid claims	(19,914)	(25,009)
Prior year estimated unpaid Facility Association claims	(668)	(522)
Net unpaid for claims of prior years	156,802	155,931
Provision for unpaid claims occurring in the current year	114,315	106,569
Provision for unpaid Facility Association claims occurring in the current year	1,571	1,449
Net unpaid claims, end of year	\$ 272,688	\$ 263,949

The fair value of the provision for unpaid claims and unpaid claims recoverable from reinsurers has not been provided because it is not practicable to determine fair value with sufficient reliability.

Development of unpaid claims

The following table shows the development of the estimated net provision for unpaid claims relative to the current estimate of ultimate claims costs for the four most recent accident years as estimated at each reporting date:

	2007	2008	2009	2010	Total
	(thousands of \$)				
Net Ultimate Loss					
At end of accident year	\$ 177,379	\$ 184,394	\$ 197,049	\$ 241,557	
One year later	176,137	178,233	188,851		
Two years later	171,591	175,654			
Three years later	169,744				
Four years later					
Cumulative loss development	\$ 7,635	\$ 8,740	\$ 8,198	—	
Cumulative loss development as a % of original ultimate loss	4.3%	4.7%	4.2%	—	
Current estimate of net ultimate loss	\$ 169,744	\$ 175,654	\$ 188,851	\$ 241,557	
Cumulative paid	(155,136)	(156,479)	(152,280)	(138,296)	
Net provision for unpaid claims for the four most recent accident years	\$ 14,608	\$ 19,175	\$ 36,571	\$ 103,261	\$ 173,615
Net undiscounted claims outstanding for accident years 2006 and prior					58,866
Internal reinsurance to subsidiaries					14,661
Loss adjusting expense reserve					7,005
Gross subrogation recoveries					6,639
Provision for adverse deviation and discounting					4,705
Unpaid Facility Association claims					4,530
Other reconciling items					2,667
Net provision for unpaid claims					\$ 272,688

Type of unpaid claims

The provision for unpaid claims is summarized by line of business as follows:

	2010			2009		
	(thousands of \$)					
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
Automobile	\$ 150,711	\$ 16,642	\$ 134,069	\$ 148,528	\$ 21,234	\$ 127,294
Property	86,363	23,203	63,160	62,958	4,146	58,812
Liability	67,447	4,287	63,160	69,546	4,246	65,300
Assumed	7,769	—	7,769	7,813	—	7,813
Facility Association (note 19)	4,530	—	4,530	4,730	—	4,730
Total	\$ 316,820	\$ 44,132	\$ 272,688	\$ 293,575	\$ 29,626	\$ 263,949

Included in the provision for unpaid claims are discounted amounts for certain injury accident benefits in the amount of \$15,096,000 (2009 – \$13,920,000). These claims have been discounted using a rate of 3% (2009 – 6%), which reflects the expected claim settlement patterns and SGI's projected rate of return on its investment portfolio. The provision for unpaid claims on these injury accident benefits also includes a provision for adverse development in the amount of \$1,714,000 (2009 – \$1,530,000).

Assumed claims

The provision for unpaid claims includes a provision for unpaid reinsurance assumed claims of \$7,769,000 (2009 – \$7,813,000). The Corporation discontinued its practice of underwriting reinsurance assumed business in 1985, but remains financially responsible for claims run-off on assumed contracts.

Structured settlements

The Corporation settles some long-term disability claims by purchasing annuities from various financial institutions. The settlements legally release the Corporation from its obligations to the claimants. Consequently, neither the annuities purchased nor the claim liabilities are recognized on the Consolidated Statement of Financial Position. However, as part of the settlement, the Corporation provides a financial guarantee to the claimants in the event the financial institutions default on the scheduled payments. As at December 31, 2010, no information has come to the Corporation's attention that would suggest any weakness or failure in the financial institutions from which it has purchased annuities. The net present value of the scheduled payments as of the year-end date is \$49,174,000 (2009 – \$49,488,000).

9. Equity Advances

The Corporation does not have share capital. However, the Corporation has received equity advances from its parent, CIC, to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

10. Underwriting Policy and Reinsurance Ceded

The Corporation seeks to reduce losses that may arise from catastrophes or other events that cause unfavourable underwriting results by reinsuring certain levels of risk with other insurers. The policy of underwriting and reinsuring contracts of insurance limits the liability of the Corporation to a maximum amount on any one loss as follows:

	2010	2009
	(thousands of \$)	
Dwelling and farm property	\$ 750	\$ 750
Unlicensed vehicles	750	750
Commercial property	1,000	1,000
Automobile and general liability	1,500	1,500
(subject to filling an annual aggregate deductible of)	1,500	1,500
Property catastrophe (health care)	7,500	7,500
Property catastrophe (non-health care)	8,500	8,500

The Corporation evaluates and monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvency.

The following table sets out the amount by which reinsurance ceded has reduced (increased) the premiums earned, claims incurred, commissions, premium taxes and administrative expenses:

	2010	2009
	(thousands of \$)	
Premium earned	\$ 37,645	\$ 30,664
Claims incurred	39,968	10,626
Commissions and premium taxes	4,588	4,594
Administrative expenses	(1,092)	(1,766)

11. Investment Earnings

The components of investment earnings are as follows:

	2010	2009
	(thousands of \$)	
Net realized gain on sale of investments	\$ 17,350	\$ 2,272
Interest	13,123	13,918
Premium financing	4,306	3,572
Pooled fund distributions	2,496	2,371
Dividends	2,073	1,873
Investments accounted for on the equity basis	205	206
Interest on net investment in capital lease	44	95
Investment write-downs	(464)	(3,965)
Total investment earnings	\$ 39,133	\$ 20,342
Investment expenses	(850)	(770)
Net investment earnings	\$ 38,283	\$ 19,572

Investment write-downs by category are as follows:

	2010	2009
	(thousands of \$)	
Canadian common shares	\$ (370)	\$ (2,127)
U.S. common shares	—	(479)
U.S. pooled equity fund	—	(668)
Non-North American pooled equity fund	(94)	(691)
Total investment write-downs	\$ (464)	\$ (3,965)

12. Income Taxes

The Corporation's provision for (recovery of) income taxes is as follows:

	2010	2009
	(thousands of \$)	
Current	\$ 2,919	\$ (204)
Future	(376)	1,207
Total income taxes	\$ 2,543	\$ 1,003

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes and non-controlling interest. The reasons for the differences are as follows:

	2010	2009
	(thousands of \$)	
Income before income taxes and non-controlling interest	\$ 51,345	\$ 53,387
Combined federal and provincial tax rate	30.23%	29.54%
Computed tax expense based on combined rate	\$ 15,522	\$ 15,771
Increase (decrease) resulting from:		
Changes to enacted tax rates	166	45
Non-deductible expenses for tax purposes	32	33
Investment earnings not subject to taxation	(13,249)	(14,809)
Taxable gain on sale of investments accounted for on the equity basis	86	—
Other	(14)	(37)
Total income taxes	\$ 2,543	\$ 1,003

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities are presented below:

	2010	2009
	(thousands of \$)	
Future income tax assets		
Provision for unpaid claims	\$ 2,668	\$ 2,507
Other	24	24
Total future income tax assets	2,692	2,531
Future income tax liabilities		
Investments	333	472
Unpaid claims recoverable from reinsurers	577	653
Total future income tax liabilities	910	1,125
Net future income tax assets	\$ 1,782	\$ 1,406

13. Financial Risk Management

The nature of the Corporation's operations result in a statement of financial position that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Significant financial risks are related to the Corporation's investments. These financial risks are managed by having a Statement of Investment Policies and Goals (SIP&G), which is approved annually by the Corporation's Board of Directors, based on a recommendation from the Board's Investment Committee. The SIP&G provides guidelines to the investment manager for the asset mix of the portfolio, regarding quality and quantity of debt, real estate and equity investments using a prudent person approach. The asset mix guidelines help reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. SGI receives regular reporting from the investment manager and custodian regarding compliance with the SIP&G.

Credit risk

The Corporation's credit risk arises primarily from two distinct sources: accounts receivable (from its customers, brokers and reinsurers) and certain investments. The maximum credit risk to which it is exposed at December 31, 2010, is limited to the carrying value of the financial assets summarized as follows:

	2010	2009
	(thousands of \$)	
	Carrying Value	Carrying Value
Cash and cash equivalents	\$ 27,809	\$ 16,920
Accounts receivable	127,479	125,334
Fixed income investments ¹	435,150	435,128
Unpaid claims recoverable from reinsurers	44,132	29,626

¹ Includes short-term investments, bonds and debentures and the mortgage pooled fund

In addition, the Corporation is exposed to credit risk associated with its structured settlements and securities lending program as described separately in the notes to the consolidated financial statements.

Cash and cash equivalents include money market investments of \$26,448,000 plus cash on hand, net of outstanding cheques of \$1,361,000 (2009 – money market investments of \$22,300,000 less cash on hand, net of outstanding cheques of \$5,380,000). The money market investments mature within 90 days from the date of acquisition and have a credit rating of R-1.

Accounts receivable are primarily from customers, diversified among residential, farm and commercial, along with amounts from brokers across the provinces that SGI CANADA operates in. Accounts receivable consist of balances outstanding for one year or less.

	2010	2009
	(thousands of \$)	
Current	\$ 126,194	\$ 121,370
30-59 days	594	1,077
60-89 days	253	351
Greater than 90 days	5,551	8,797
Subtotal	132,592	131,595
Allowance for doubtful accounts	(5,113)	(6,261)
Total	\$ 127,479	\$ 125,334

Provisions for credit losses are maintained in an allowance account and regularly reviewed by the Corporation. Amounts are written off once reasonable collection efforts have been exhausted. Details of the allowance account are as follows:

	2010	2009
	(thousands of \$)	
Allowance for doubtful accounts, opening balance	\$ 6,261	\$ 4,900
Accounts written off	(2,134)	(1,430)
Current period provision	986	2,791
Allowance for doubtful accounts, ending balance	\$ 5,113	\$ 6,261

Credit risk within investments is related primarily to short-term investments, bonds and debentures, and the mortgage pooled fund. It is managed through the investment policy that limits debt instruments to those of high credit quality (minimum rating for bonds and debentures is BBB and for short-term investments is R-1), along with limits to the maximum notional amount of exposure with respect to any one issuer.

Credit ratings for the bonds and debentures are as follows:

Credit Rating	2010		2009	
	(thousands of \$)			
	Fair Value	Makeup of Portfolio	Fair Value	Makeup of Portfolio
AAA	\$ 197,639	53.9%	\$ 202,557	51.5%
AA	82,539	22.5%	84,534	21.5%
A	65,765	17.9%	86,160	21.9%
BBB	21,042	5.7%	19,877	5.1%
Total	\$ 366,985	100.0%	\$ 393,128	100.0%

Within bonds and debentures, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 10% of the market value of the combined bond and short-term investment portfolios. No single holding of a province is over 20% of the market value of the bond portfolio.

The unit value of the mortgage pooled fund is impacted by the credit risk of the underlying mortgages. This risk is limited by restrictions within its own investment policy, which include single loan limits, diversification by property type and geographic regions within Canada.

Through its custodian, the Corporation participates in an investment security lending program. Collateral of at least 102% of the market value of the loaned securities is held for the loan. This collateral is marked to market on a daily basis. In addition, the custodian provides indemnification against any potential losses in the securities lending program. At December 31, 2010, the Corporation had \$78,141,000 (2009 – \$40,139,000) of securities on loan under the program and held collateral of \$82,048,000 (2009 – \$42,149,000).

Credit risk associated with reinsurers is managed through regular monitoring of credit ratings of the reinsurers utilized by the Corporation. Reinsurers' credit ratings range from AA+ to A- based on the most recent ratings by A.M. Best.

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest rate risk

The Corporation is exposed to changes in interest rates in its fixed income investments, including short-term investments, bonds and debentures, and the mortgage pooled fund. It is estimated that a 100 basis point increase/decrease in interest rates would decrease/increase other comprehensive income and accumulated other comprehensive income by \$11.5 million at December 31, 2010 (2009 – \$18.1 million), representing 2.6% of the \$435.2 million fair value (2009 – 4.2%, \$435.1 million) of fixed income investments.

Foreign exchange risk

The Corporation is subject to changes in the U.S./Canadian dollar exchange rate on its U.S. equity investments, purchases of goods and services that are denominated in U.S. dollars, and a portion of claims and reinsurance receivables and payables denominated in U.S. dollars. Also, the Corporation is exposed to Europe, Australasia and Far East (EAFE) currencies through its investment in the non-North American Pooled Fund. Exposure to both U.S. equities and non-North American equities is limited to a maximum 7% each of the market value of the total investment portfolio, excluding investments accounted for on the equity basis and preferred shares. At December 31, 2010, the Corporation's exposure to U.S. equities was 5.2% (2009 – 5.2%) and its exposure to non-North American equities was 5.4% (2009 – 4.6%).

At December 31, 2010, a 10% appreciation/depreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a \$3.1 million (2009 – \$3.0 million) decrease/increase in other comprehensive income and accumulated other comprehensive income. A 10% appreciation/depreciation in the Canadian dollar versus the EAFE currencies would result in approximately a \$3.2 million (2009 – \$2.7 million) decrease/increase in other comprehensive income and accumulated other comprehensive income. As U.S. common shares, the U.S. equity pooled fund and the non-North American equity pooled fund are classified as available for sale, any unrealized changes due to foreign currency are recorded as other comprehensive income and do not directly impact net income until the investment is sold.

The Corporation's exposure to foreign exchange risk within its bond and debenture portfolio is limited to a maximum 5% of the market value of the bond and debenture portfolio. As well, no more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers.

The Corporation's exposure to exchange rate risk resulting from the purchase of goods and services, and claims and reinsurance receivables and payables, are not considered material to the operations of the Corporation.

Equity prices

The Corporation is exposed to changes in equity prices in Canadian, U.S. and EAFE markets. Equities comprise 26.4% (2009 – 24.7%) of the carrying value of the Corporation's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee or related group of investees represents greater than 10% of the market value of the Corporation's common share portfolio. As well, no one holding represents more than 10% of the voting shares of any corporation.

The Corporation's equity price risk is assessed using Value at Risk (VaR), a statistical technique that measures the potential change in the value of an asset class. The VaR has been calculated based on volatility over a four-year period, using a 95% confidence level. As such, it is expected that the annual change in the portfolio market value will fall within the range outlined in the following table 95% of the time (19 times out of 20 years).

Asset Class	2010		2009	
	(thousands of \$)			
Canadian pooled equity fund and Canadian common shares	\$	+/- 36,613	\$	+/- 32,877
U.S. pooled equity fund and U.S. common shares		+/- 8,054		+/- 7,542
Non-North American pooled equity fund		+/- 11,128		+/- 9,147

The Corporation's equity investments are classified as available for sale and as such, any unrealized changes in their fair value are recorded as other comprehensive income and do not directly impact net income until the investment is sold.

Liquidity risk

Liquidity risk is the risk the Corporation is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows. The majority of financial liabilities, excluding certain unpaid claims liabilities, are short-term in nature and due within one year. The Corporation generally maintains positive overall cash flows through cash generated from operations, as well as cash generated from its investing activities.

The following summarizes the estimated contractual maturities of the Corporation's financial liabilities at December 31:

2010

(thousands of \$)

	Carrying amount	0-6 months	7-12 months	1-2 years	3-5 years	More than 5 years
Accounts payable and accrued liabilities	\$ 29,292	\$ 29,292	\$ —	\$ —	\$ —	\$ —
Dividend payable	15,462	15,462	—	—	—	—
Premium taxes payable	18,856	18,856	—	—	—	—
Amounts due to reinsurers	5,960	5,930	30	—	—	—
Provision for unpaid claims	316,820	82,417	42,643	46,345	79,542	65,873
	<u>\$ 386,390</u>	<u>\$ 151,957</u>	<u>\$ 42,673</u>	<u>\$ 46,345</u>	<u>\$ 79,542</u>	<u>\$ 65,873</u>

2009

(thousands of \$)

	Carrying amount	0-6 months	7-12 months	1-2 years	3-5 years	More than 5 years
Accounts payable and accrued liabilities	\$ 39,476	\$ 39,476	\$ —	\$ —	\$ —	\$ —
Dividend payable	22,199	22,199	—	—	—	—
Premium taxes payable	17,474	16,346	1,128	—	—	—
Amounts due to reinsurers	4,578	4,532	37	9	—	—
Provision for unpaid claims	293,575	77,160	40,834	45,148	74,397	56,036
	<u>\$ 377,302</u>	<u>\$ 159,713</u>	<u>\$ 41,999</u>	<u>\$ 45,157</u>	<u>\$ 74,397</u>	<u>\$ 56,036</u>

14. Capital Management

The Corporation's primary objectives when managing capital is to ensure adequate funding is available to pay policyholder claims, be flexible in its product offerings and support its growth strategies, while providing an adequate return to its shareholder. Its main sources of capital are retained earnings and cash injections in the form of equity advances from its parent, CIC. There were no changes to the Corporation's capital structure during the period.

The Corporation uses a common industry measurement, the Minimum Capital Test (MCT), to monitor its capital adequacy. The MCT is a risk-based capital adequacy formula that assesses risks to assets, policy liabilities and off-balance sheet exposures by applying various factors to determine a ratio of capital available over capital required.

SGI CANADA is not a regulated insurer; however, its subsidiaries, SGI CANADA Insurance Services Ltd., Coachman Insurance Company and the Insurance Company of Prince Edward Island, are subject to rate regulation related to their automobile premiums. Regulators require insurers to maintain a level of capital sufficient to achieve an MCT ratio based on the risk profile of the insurer and its insurance business, generally at or above 150%. At December 31, 2010, the Corporation's MCT was 247% (2009 – 254%). There have been no changes to the Corporation's capital management processes and measures since the prior year end.

15. Change in Non-cash Operating Items

The change in non-cash operating items is comprised of the following:

	2010	2009
	(thousands of \$)	
Accounts receivable	\$ (2,145)	\$ (26,806)
Deferred policy acquisition costs	(3,792)	(4,750)
Reinsurers' share of unearned premiums	(355)	417
Unpaid claims recoverable from reinsurers	(14,506)	(3,171)
Other assets	10	170
Accounts payable and accrued liabilities	(11,325)	14,233
Premium taxes payable	1,382	1,566
Amounts due to reinsurers	1,382	(810)
Unearned reinsurance commissions	132	35
Unearned premiums	23,604	23,352
Provision for unpaid claims	23,245	6,472
	<u>\$ 17,632</u>	<u>\$ 10,708</u>

16. Employee Future Benefits

The Corporation incurs retirement benefit costs associated with its defined benefit pension plan, defined contribution plan and its defined benefit service recognition plans. The Corporation allocates a portion of these costs to the Saskatchewan Auto Fund for those employees of the Corporation who provide service to it. These amounts have been disclosed separately in this note.

Defined benefit pension plan

The Corporation has a defined benefit pension plan for certain of its employees that has been closed to new membership since 1980. Current service costs of this plan are charged to operations on the basis of actuarial valuations, the most recent valuation being as of December 31, 2009. The next valuation is anticipated to have a valuation date of December 31, 2010.

The actuarial valuation includes a provision for uncommitted and ad hoc benefit increases, and is measured using management's best estimates based on assumptions that reflect the most probable set of economic circumstances and planned courses of action. The estimate, therefore, involves risks that the actual amount may differ materially from the estimate. Results from the latest valuation as at December 31, 2009, projected to December 31, 2010, and the major assumptions used in the valuation, are as follows:

Economic assumptions:	2010	2009
Discount rate, beginning of period	5.30%	7.50%
Discount rate, end of period	4.90%	5.30%
Expected return on plan assets	5.50%	6.25%
Inflation rate	2.50%	2.50%
Expected salary increase	2.50%	2.50%
Post-retirement index	—	—
Remaining service life of active members in years (EARSL)	2	3

Information about the Corporation's defined benefit pension plan is as follows:

	<u>2010</u>	<u>2009</u>
	(thousands of \$)	
Accrued benefit obligation		
Accrued benefit obligation, beginning of year	\$ 37,194	\$ 35,531
Current service cost	131	126
Interest cost	1,899	2,559
Benefits paid	(2,954)	(3,008)
Change in actuarial assumptions	1,147	1,986
Experience gain	(986)	—
Accrued benefit obligation, end of year	<u>\$ 36,431</u>	<u>\$ 37,194</u>
Plan assets		
Fair value of plan assets, beginning of year	\$ 36,491	\$ 35,533
Actual return on plan assets	3,192	3,822
Employer contributions	78	96
Employee contributions	36	48
Benefits paid	(2,954)	(3,008)
Fair value of plan assets, end of year	<u>\$ 36,843</u>	<u>\$ 36,491</u>
Funded status – plan surplus (deficit)	\$ 412	\$ (703)
Unamortized transitional asset	—	(3)
Unamortized net actuarial losses	4,039	5,125
Valuation allowance	(277)	—
Accrued pension asset	<u>\$ 4,174</u>	<u>\$ 4,419</u>

As at December 31, 2010, \$1,387,000 (2009 – \$1,464,000) of the accrued pension asset has been recorded by the Corporation (note 7) and \$2,787,000 (2009 – \$2,955,000) has been allocated to the Saskatchewan Auto Fund.

The asset allocation of the defined benefit pension plan assets is as follows:

<i>Asset Category</i>	<i>Target Range</i>	Per cent of Plan Assets at December 31	
		<i>2010</i>	<i>2009</i>
Short-term investments	3-20%	4%	3%
Bonds and debentures	40-70%	51%	54%
Canadian equities	10-30%	18%	18%
U.S. equities	Total foreign	13%	14%
Non-North American equities		14%	11%

Pension income for the defined benefit pension plan is as follows:

	<i>2010</i>	<i>2009</i>
	(thousands of \$)	
Current service cost	\$ (95)	\$ (77)
Interest cost	(1,899)	(2,559)
Expected return on pension plan assets	1,929	2,131
Amortization of net transitional asset	3	608
Amortization of actuarial gains	76	70
Valuation allowance	(277)	—
Pension income (expense)	\$ (263)	\$ 173

During the year, \$180,000 of the pension expense (2009 – income of \$117,000) was allocated to the Saskatchewan Auto Fund. The Corporation has recorded the remaining \$83,000 of pension expense (2009 – income of \$56,000) in administrative expenses on the Consolidated Statement of Operations.

Defined contribution pension plan

The Corporation also has employees who are members of the Capital Pension Plan, which is a defined contribution pension plan. The Corporation's financial obligation is limited to matching employee contributions of 5.5% to the plan.

Pension expense for the defined contribution pension plan is \$5,872,000 (2009 – \$5,685,000). During the year, \$4,021,000 (2009 – \$3,840,000) of pension expense was allocated to the Saskatchewan Auto Fund. The Corporation has recorded the remaining \$1,851,000 (2009 – \$1,845,000) of pension expense in administrative expenses on the Consolidated Statement of Operations.

Defined benefit service recognition plans

Significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligation at December 31 are:

	2010	2009
Discount rate	4.30 - 4.50%	5.00 - 5.40%
Expected salary increase	3.50%	4.60 - 5.00%, in 2010 3.5%, thereafter
EARSL – management	10	9
EARSL – in-scope	10	11

Information about the defined benefit service recognition plans is as follows:

	2010	2009
	(thousands of \$)	
Benefit expense	\$ 3,171	\$ 3,069
Accrued benefit obligation	\$ 19,998	\$ 18,984
Unamortized past service costs, net actuarial losses and transitional asset	(7,674)	(7,750)
Accrued benefit liability	\$ 12,324	\$ 11,234

As at December 31, 2010, \$9,263,000 (2009 – \$7,589,000) of the accrued benefit liability was allocated to the Saskatchewan Auto Fund. The Corporation has recorded the remaining \$3,061,000 (2009 – \$3,645,000) of accrued benefit liability in accounts payable and accrued liabilities on the Consolidated Statement of Financial Position.

17. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Transactions and amounts outstanding at year-end are as follows:

Category	2010	2009
	(thousands of \$)	
Accounts receivable	\$ 747	\$ 701
Deferred policy acquisition costs	8,676	8,207
Investments	6,013	7,767
Accounts payable and accrued liabilities	82	80
Dividends payable	15,462	22,199
Premium taxes payable	16,776	15,926
Unearned premiums	1,704	2,172
Provision for unpaid claims	4,833	3,084
Gross premiums written	3,476	4,800
Net premiums earned	3,711	4,737
Claims incurred	3,016	2,874
Administrative expenses	2,223	2,273
Premium taxes	16,307	15,316
Investment earnings	458	287

The Corporation acts as administrator of the Saskatchewan Auto Fund. Administrative and loss adjustment expenses incurred by the Corporation are allocated to the Corporation and the Saskatchewan Auto Fund directly or on the basis of specific distributions. Amounts incurred by the Corporation and charged to the Saskatchewan Auto Fund were \$119,080,000 (2009 – \$112,382,000) and accounts payable were \$1,576,000 (2009 – \$133,000).

The Corporation has direct premiums brokered through Charlie Cooke Insurance Agency Ltd. (CCIA), pays claim adjusting fees to Atlantic Adjusting and Appraisals Ltd. (AAA) and has premiums financed for policyholders by Maritime Finance and Acceptance Corporation (MFAC). These companies are affiliated with the minority shareholder of ICPEI, who is a member of ICPEI's senior management. The policies written and the claim adjusting expenses paid are routine operating transactions in the normal course of business.

On June 1, 2010, the Corporation, through its subsidiary, ICPEI, loaned the primary shareholders of CCIA \$1,146,000 (two loans of \$605,000 and \$541,000 with consistent terms and conditions) in order to fund their purchase of the Corporation's minority interest in CCIA (note 5). Subsequent to the sale, the Corporation and CCIA are no longer related. The loans require 10 equal annual payments of \$128,790, including principal and interest, beginning on March 31, 2011. The loans accrue interest at an effective annual rate of 2.25% and are secured by a general security agreement covering all assets of CCIA.

On December 22, 2010, the Corporation, through its subsidiary, SGI CANADA Insurance Services Ltd. loaned the primary shareholders of MFAC and AAA \$343,000 (two loans of \$181,000 and \$162,000 with consistent terms and conditions) in order to fund their purchase of the MFAC and AAA shares (note 5). The loans require seven equal annual payments of \$57,000 including principal and interest, beginning on March 31, 2011. The loans accrue interest at an effective annual rate of 4.00% and are secured by a general security agreement covering all assets of MFAC and AAA, and guarantees from the purchaser.

During 2007 the Corporation provided CCIA a \$450,000 loan for the purpose of purchasing a brokerage. The terms of the agreement provide for repayment in six annual instalments of \$75,000 and require CCIA to maintain minimum premium limits. At December 31, 2010, the loan is recorded at its amortized cost of \$206,000 (2009 – \$268,000), calculated by discounting the scheduled instalments at an interest rate that reflects the term and credit risk associated with the loan. During the year, \$75,000 (2009 – \$75,000) was repaid and interest revenue of \$13,000 (2009 – \$17,000) was recorded through investment earnings.

The above noted loans are included as a component of accounts receivable and their fair value approximates their book values.

Transactions and amounts outstanding between the Corporation and CCIA, AAA and MFAC at year-end are as follows:

Category	2010	2009
	(thousands of \$)	
Accounts receivable	\$ —	\$ 946
Accounts payable and accrued liabilities	56	1,131
Premiums written	4,620	11,320
Claims incurred	716	624
Commissions	1,054	2,659
Premiums financed	5,312	4,653

Certain board members are partners in organizations that provided \$27,000 (2009 – \$4,000) of professional services to the Corporation. These services were recorded in claims incurred and administrative expenses in the Statement of Operations. In addition, one board member owns an organization that sells insurance policies of the Corporation. Premiums written during the year from this organization amounted to \$4,417,000 (2009 – \$4,436,000) and the associated accounts receivable at December 31, 2010, was \$775,000 (2009 – \$887,000). Commissions related to these premiums were \$824,000 (2009 – \$792,000). The above noted transactions are routine operating transactions in the normal course of business.

Other related party transactions are described separately in the notes to the consolidated financial statements.

18. Fair Values of Financial Assets and Liabilities

The fair value of financial assets and liabilities, other than investments (note 5), net investment in capital lease (note 7), unpaid claims and unpaid claims recoverable from reinsurers (notes 8 and 10) approximate carrying value due to their immediate or short-term nature.

19. Facility Association Participation

Through its subsidiaries, the Corporation is a participant in automobile residual market and risk-sharing pools, whereby companies in the industry are required by regulation to provide automobile insurance coverage to high-risk insureds.

Facility Association transactions recorded in the Corporation's financial results are as follows:

	2010	2009
	(thousands of \$)	
Gross premiums written	\$ 3,948	\$ 4,113
Net premiums earned	\$ 3,766	\$ 3,705
Claims incurred	1,791	3,119
Commissions	298	129
Premium taxes	118	115
Administrative expenses	879	973
Total claims and expenses	3,086	4,336
Underwriting profit (loss)	680	(631)
Investment earnings	106	149
Net income (loss)	\$ 786	\$ (482)
Facility Association receivable	\$ 4,051	\$ 3,951
Unearned premiums	1,398	1,215
Provision for unpaid claims	4,530	4,730
Facility Association payable	3,504	3,504

20. Segmented Information

The Corporation provides property and casualty insurance through four operating segments: Saskatchewan, Manitoba and Alberta, Ontario and the Maritimes (where Maritimes represents Prince Edward Island, New Brunswick and Nova Scotia). These operating segments correspond with the legal entities that make up the Corporation, as discussed in note 1. The performance of each operating segment is reported separately to the Corporation's Board of Directors.

2010	Saskatchewan	Manitoba and Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
	(thousands of \$)					
Net premiums written	\$ 318,120	\$ 46,475	\$ 45,162	\$ 20,803	\$ —	\$ 430,560
Net premiums earned	\$ 308,879	\$ 43,217	\$ 35,995	\$ 19,402	\$ —	\$ 407,493
Claims incurred	175,080	27,286	27,078	10,573	—	240,017
Other expenses	120,630	14,873	11,907	7,004	—	154,414
Underwriting profit (loss)	13,169	1,058	(2,990)	1,825	—	13,062
Investment earnings	30,115	3,072	4,182	914	—	38,283
Income before the following:	43,284	4,130	1,192	2,739	—	51,345
Income taxes	—	1,189	452	902	—	2,543
Non-controlling interest	—	—	—	—	446	446
Net income	\$ 43,284	\$ 2,941	\$ 740	\$ 1,837	\$ (446)	\$ 48,356
Total assets	\$ 598,783	\$ 109,936	\$ 148,767	\$ 43,634	\$ (28,305)	\$ 872,815
Province of Saskatchewan's equity	\$ 149,215	\$ 39,242	\$ 41,138	\$ 11,150	\$ (2,428)	\$ 238,317
2009	Saskatchewan	Manitoba and Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
	(thousands of \$)					
Net premiums written	\$ 306,531	\$ 40,015	\$ 29,459	\$ 17,909	\$ —	\$ 393,914
Net premiums earned	\$ 293,721	\$ 35,400	\$ 25,452	\$ 15,982	\$ —	\$ 370,555
Claims incurred	139,634	18,965	21,516	9,496	—	189,611
Other expenses	116,765	13,726	9,331	7,307	—	147,129
Underwriting profit (loss)	37,322	2,709	(5,395)	(821)	—	33,815
Investment earnings	12,217	1,695	4,634	1,026	—	19,572
Income (loss) before the following:	49,539	4,404	(761)	205	—	53,387
Income taxes (recovery)	—	1,190	(270)	83	—	1,003
Non-controlling interest	—	—	—	—	17	17
Net income (loss)	\$ 49,539	\$ 3,214	\$ (491)	\$ 122	\$ (17)	\$ 52,367
Total assets	\$ 586,144	\$ 114,504	\$ 132,581	\$ 38,233	\$ (44,025)	\$ 827,437
Province of Saskatchewan's equity	\$ 144,842	\$ 34,942	\$ 39,335	\$ 9,072	\$ (1,879)	\$ 226,312

21. Commitments and Contingencies

The Corporation is committed to a related party until December 31, 2011, for a telecommunications contract. At December 31, 2010, the remaining commitment is \$790,000 (2009 – \$2,371,000).

The Corporation is committed until 2011 for a systems support contract. At December 31, 2010, the remaining commitment is \$1,103,000 (2009 – \$688,000).

The Corporation is committed to annual payments under operating leases for buildings as follows:

	(thousands of \$)	
2011	\$	427
2012		328
2013		254
2014		34
2015		20

In common with the insurance industry in general, the Corporation is subject to litigation arising in the normal course of conducting its insurance business. The Corporation is of the opinion that this litigation will not have a significant effect on the financial position or results of operations of the Corporation.

22. Comparative Financial Information

For comparative purposes, certain 2009 balances have been reclassified to conform to 2010 financial statement presentation.

CORPORATE governance

The Canadian Securities Administrators and securities regulators across Canada have implemented governance policies for publicly traded companies. National Policy 58-201 and National Instrument 58-101 came into effect on June 30, 2005. While Saskatchewan Government Insurance is not publicly traded and therefore not required to comply with these guidelines, they provide an excellent benchmark to measure good governance practices.

National Policy 58-201 Corporate Governance Guidelines

Guideline	Saskatchewan Government Insurance
Composition of the Board	
1. The board should have a majority of independent directors.	Yes. The Board of Directors is constituted of a majority of independent directors.
2. The chair of the board should be an independent director. Where this is not appropriate, an independent director should be appointed to act as "lead director." However, either an independent chair or an independent lead director should act as the effective leader of the board and ensure that the board's agenda will enable it to successfully carry out its duties.	Yes. The Chair of the Board is an independent director.
Meetings of Independent Directors	
3. The independent directors should hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance.	Yes. The Board of Directors has meetings in-camera, during which no management is in attendance, at every Board and committee meeting, as well as on an as-required basis. There are no non-independent directors on the current Board.
Board Mandate	
4. The board should adopt a written mandate in which it explicitly acknowledges responsibility for the stewardship of the issuer, including responsibility for:	Yes. The Board has approved Terms of Reference (mandate), which explicitly acknowledge responsibility for the stewardship of the Corporation.
(a) to the extent feasible, satisfying itself as to the integrity of the chief executive officer (the CEO) and other executive officers, and that the CEO and other executive officers, create a culture of integrity throughout the organization.	Yes. The Board has approved the corporate values under which all employees, including the CEO and senior management, are expected to operate.
(b) adopting a strategic planning process and approving, on at least an annual basis, a strategic plan which takes into account, among other things, the opportunities and risks of the business;	Yes. The Board of Directors holds an annual strategic planning session. This session provides the basis of the Corporation's strategic plan and initiatives, as well as direction to management in the formation of the Corporation's operating budget and goals. Further, the Board is provided with quarterly updates during the year on the progress of the corporate strategic initiatives.

National Policy 58-201 Corporate Governance Guidelines

Guideline	Saskatchewan Government Insurance
(c) the identification of the principal risks of the issuer's business, and ensuring the implementation of appropriate systems to manage these risks;	Yes. The Board of Directors undertakes a process to identify the principal risks of the business, to achieve a proper balance between risks incurred and potential returns, and to oversee the implementation of appropriate systems to manage the risks. The Board of Directors has established a Risk committee with responsibility for this function and it reports to the Board on those risks on at least an annual basis.
(d) succession planning (including appointing, training and monitoring senior management);	Yes. The Board of Directors has charged the Human Resources committee with responsibility for reviewing the Corporation's succession plan. The committee reviews the plan on an annual basis and reports its findings to the Board.
(e) adopting a communication policy for the issuer;	Yes. The Corporation has a formal communications policy which has been approved by the Board of Directors.
(f) the issuer's internal control and management information systems; and	Yes.
(g) developing the issuer's approach to corporate governance, including developing a set of corporate governance principles and guidelines that are specifically applicable to the issuer.	Yes.
The written mandate of the board should also set out:	
(i) measures for receiving feedback from stakeholders (e.g., the board may wish to establish a process to permit stakeholders to directly contact the independent directors), and	Yes. The Corporation also undertakes research annually on behalf of the Board.
(ii) expectations and responsibilities of directors, including basic duties and responsibilities with respect to attendance at board meetings and advance review of meeting materials. In developing an effective communication policy for the issuer, issuers should refer to the guidance set out in National Policy 51-201 Disclosure Standards.	Yes. Position descriptions for directors were developed and approved.

National Policy 58-201 Corporate Governance Guidelines

Guideline	Saskatchewan Government Insurance
Position Descriptions	
5. The board should develop clear position descriptions for the chair of the board and the chair of each board committee. In addition, the board, together with the CEO, should develop a clear position description for the CEO, which includes delineating management's responsibilities. The board should also develop or approve the corporate goals and objectives that the CEO is responsible for meeting.	Yes. Position descriptions for directors were developed and approved. A position description for the CEO has been developed and approved. The Board has developed and approved corporate goals and objectives.
Orientation and Continuing Education	
6. The board should ensure that all new directors receive a comprehensive orientation. All new directors should fully understand the role of the board and its committees, as well as the contribution individual directors are expected to make (including, in particular, the commitment of time and resources that the issuer expects from its directors). All new directors should also understand the nature and operation of the issuer's business.	Yes. The Terms of Reference for the Board specify the responsibility for director training, which has been delegated to the Governance committee. New directors receive an orientation which provides an overview of the Corporation, its operations and its industry. Further, directors are educated on the role of the Board, its committees and the expectation of directors. The director position description describes a director's responsibilities.
7. The board should provide continuing education opportunities for all directors, so that individuals may maintain or enhance their skills and abilities as directors, as well as to ensure their knowledge and understanding of the issuer's business remains current.	Yes. The Board provides opportunities for all directors to increase their knowledge of issues and subjects facing the Corporation. Further, Crown Investments Corporation provides annual director training opportunities to all Crown corporation directors.
Code of Business Conduct and Ethics	
8. The board should adopt a written code of business conduct and ethics (a code). The code should be applicable to directors, officers and employees of the issuer. The code should constitute written standards that are reasonably designed to promote integrity and to deter wrongdoing. In particular, it should address the following issues:	Yes. The Board has adopted a written Code of Conduct for Directors and a Corporate Code of Ethics and Conduct which is applicable to directors, officers and employees.
(a) conflicts of interest, including transactions and agreements in respect of which a director or executive officer has a material interest;	Yes. Conflicts of interest are addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.
(b) protection and proper use of corporate assets and opportunities;	Yes. The protection and proper use of corporate assets and opportunities are addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.

National Policy 58-201 Corporate Governance Guidelines

Guideline	Saskatchewan Government Insurance
(c) confidentiality of corporate information;	Yes. The confidentiality of corporate information is addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.
(d) fair dealing with the issuer's security holders, customers, suppliers, competitors and employees;	Yes. The fair dealing with customers, suppliers, competitors and employees is addressed in the Corporate Code of Ethics and Conduct.
(e) compliance with laws, rules and regulations; and,	Yes. The compliance with laws, rules and regulations is addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.
(f) reporting of any illegal or unethical behaviour.	Yes. The reporting of any illegal or unethical behaviour is addressed in the Corporate Code of Ethics and Conduct, and more specifically in the Whistleblower Policy.
9. The board should be responsible for monitoring compliance with the code. Any waivers from the code that are granted for the benefit of the issuer's directors or executive officers should be granted by the board (or a board committee) only.	Yes. The Human Resources committee receives an annual report concerning compliance with the code. On an as-required basis, the Human Resources committee may grant a waiver from the code.
Although issuers must exercise their own judgment in making materiality determinations, the Canadian securities regulatory authorities consider that conduct by a director or executive officer which constitutes a material departure from the code will likely constitute a "material change" within the meaning of National Instrument 51-102 Continuous Disclosure Obligations. National Instrument 51-102 requires every material change report to include a full description of the material change. Where a material departure from the code constitutes a material change to the issuer, we expect that the material change report will disclose, among other things: <ul style="list-style-type: none"> • the date of the departure(s), • the party(ies) involved in the departure(s), • the reason why the board has or has not sanctioned the departure(s), and • any measures the board has taken to address or remedy the departure(s). 	Not applicable.
Nomination of Directors	
10. The board should appoint a nominating committee composed entirely of independent directors.	Yes. The Board has charged the Governance committee with the responsibility of the nomination of directors. The committee is comprised entirely of independent directors.

National Policy 58-201 Corporate Governance Guidelines

Guideline	Saskatchewan Government Insurance
<p>11. The nominating committee should have a written charter that clearly establishes the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual members and subcommittees), and manner of reporting to the board. In addition, the nominating committee should be given authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties. If an issuer is legally required by contract or otherwise to provide third parties with the right to nominate directors, the selection and nomination of those directors need not involve the approval of an independent nominating committee.</p>	<p>Yes. The Governance committee's charter is contained within the Terms of Reference.</p>
<p>12. Prior to nominating or appointing individuals as directors, the board should adopt a process involving the following steps:</p> <p>(a) Consider what competencies and skills the board, as a whole, should possess. In doing so, the board should recognize that the particular competencies and skills required for one issuer may not be the same as those required for another.</p> <p>(b) Assess what competencies and skills each existing director possesses. It is unlikely that any one director will have all the competencies and skills required by the board. Instead, the board should be considered as a group, with each individual making his or her own contribution. Attention should also be paid to the personality and other qualities of each director, as these may ultimately determine the boardroom dynamic.</p> <p>The board should also consider the appropriate size of the board, with a view to facilitating effective decision-making.</p> <p>In carrying out each of these functions, the board should consider the advice and input of the nominating committee.</p>	<p>Yes. The Governance committee undertakes a skills assessment on an annual basis.</p> <p>Yes. The Governance committee undertakes a needs assessment on an annual basis.</p> <p>Yes. The Governance committee reviews and recommends the size of the Board.</p> <p>Yes. The Governance committee reports regularly to the Board and when required makes recommendations. It should be noted that director appointments are made by Order-in-Council.</p>

National Policy 58-201 Corporate Governance Guidelines

Guideline	Saskatchewan Government Insurance
13. The nominating committee should be responsible for identifying individuals qualified to become new board members and recommending to the board the new director nominees for the next annual meeting of shareholders.	Yes. The Governance committee has a recruitment and selection process that it undertakes prior to making recommendations for appointments to the Board and Crown Investments Corporation.
14. In making its recommendations, the nominating committee should consider:	
(a) the competencies and skills that the board considers to be necessary for the board, as a whole, to possess;	Yes. The Governance committee reviews the competencies and skills required for the Board as a whole.
(b) the competencies and skills that the board considers each existing director to possess; and,	Yes. The Governance committee reviews the competencies and skills of each of the directors.
(c) the competencies and skills each new nominee will bring to the boardroom.	Yes. The Governance committee reviews the competencies and skills of nominee directors.
(d) The nominating committee should also consider whether or not each new nominee can devote sufficient time and resources to his or her duties as a board member.	Yes. During the recruitment and selection process, the Governance committee ensures that potential nominees understand the requirements and have sufficient time and resources to devote to the Board member responsibilities.
Compensation	
15. The board should appoint a compensation committee composed entirely of independent directors.	Yes. The Board has delegated the responsibilities for compensation to the Human Resources committee. The committee is comprised entirely of the independent directors.
16. The compensation committee should have a written charter that establishes the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual members or subcommittees), and the manner of reporting to the board. In addition, the compensation committee should be given authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties.	Yes. The Human Resources committee's charter is contained within the Terms of Reference. The committee has the authority to engage and compensate any outside advisor it may determine is necessary to carry out its duties.

National Policy 58-201 Corporate Governance Guidelines

Guideline	Saskatchewan Government Insurance
<p>17. The compensation committee should be responsible for:</p> <p>(a) reviewing and approving corporate goals and objectives relevant to CEO compensation, evaluating the CEO's performance in light of those corporate goals and objectives, and determining (or making recommendations to the board with respect to) the CEO's compensation level based on this evaluation;</p> <p>(b) making recommendations to the board with respect to non-CEO officer and director compensation, incentive-compensation plans and equity-based plans; and,</p> <p>(c) reviewing executive compensation disclosure before the issuer publicly discloses this information.</p>	<p>Yes. The Human Resources committee undertakes a detailed CEO evaluation on an annual basis. As part of that evaluation, the committee reviews corporate goals and objectives, and evaluates the CEO's performance against those goals and objectives. The findings of the evaluation and any compensation changes resulting from the review are recommended to the Board.</p> <p>Yes. The Human Resources committee reviews and recommends to the Board and Crown Investments Corporation any changes to compensation.</p> <p>Not applicable. Individuals reporting to the CEO, which includes all executive members, are required by legislation to file and report any changes in their compensation to the Clerk of the Saskatchewan Legislature within a 14-day period of time. Further, by policy of the Crown and Central Agencies committee of the Legislature, the Corporation is required to file an annual payee list which also contains the compensation of all members of the executive.</p>
Regular Board Assessments	
<p>18. The board, its committees and each individual director should be regularly assessed regarding his, her or its effectiveness and contribution. An assessment should consider:</p> <p>(a) in the case of the board or a board committee, its mandate or charter; and,</p> <p>(b) in the case of an individual director, the applicable position description(s), as well as the competencies and skills each individual director is expected to bring to the board.</p>	<p>Yes. The Board conducts, on a rotational basis, peer assessments and reviews of the Board and the Chair.</p> <p>Yes. The Board and its committees review their terms of reference on an as-needed basis and at least every three years.</p> <p>Yes. The Board has a position description for directors; further, individual director's skills and competencies are reviewed as part of the regular assessments.</p>

National Policy 58-201 Corporate Governance Guidelines

Independence

The matter of "independence from management" is based upon the definition set by the Canadian Securities Administrators (CSA) and utilized by publicly traded companies in the industry. None of the directors have worked with or for the Corporation, or have direct material contracts or relationships with the Corporation, or have received remuneration from the Corporation in excess of the fees and compensation as directors and committee members or as directors of subsidiaries of the Corporation. However, two members of the Board of Directors are partners in law firms that have performed legal services for the Corporation in 2010, and are thereby deemed to have a material indirect relationship with the Corporation under the above standard. The Corporation's owner has managed this issue through the development of a protocol regarding lawyers serving on Crown Investments Corporation subsidiary Crown corporation Boards of Directors. Although not in strict compliance with the CSA standards, this protocol adopts the principle that directors must be free from any material relationship that may interfere with the director's ability to exercise independent judgment in the best interests of the Corporation or to influence the choice of law firms. Given the smaller local market in Saskatchewan for legal services, the protocol restricts directors from any direct material relationship, but allows a limited indirect relationship subject to the qualifications of the protocol, such as pre-approval of legal services by an independent Board committee, declarations of conflict, no direct benefit to the director and restriction of information to that director. The Corporation's General Counsel reviews all charges related to the provision of legal services by external counsel. The General Counsel in turn reports to the Governance committee of the Board on any new matters undertaken by the director's law firm, other than those that are substantially similar to matters previously performed by the law firm in question. The Board Chair, Warren Sproule, Q.C., and Board member Douglas Richardson, Q.C., are lawyers who are subject to this protocol. All other directors, including the Vice-Chair of the Board, are independent of management. At each Board and committee meeting, the directors meet in-camera without the presence of management.

GLOSSARY OF *terms*

Broker: A person who negotiates insurance policies on behalf of the insurance company, receiving a commission from the insurance company for policies placed and other services rendered.

Casualty insurance: One of the three main groups of insurance products (the others are life insurance and property insurance). This type of insurance is primarily concerned with losses caused by injuries to others than the policyholder and the resulting legal liability imposed on the insured.

Catastrophe reinsurance: A policy purchased by a ceding company that indemnifies that company for the amount of loss in excess of a specified retention amount subject to a maximum specific limit from a covered catastrophic event.

Cede, Cedant, Ceding company: An insurance company that transfers some or all of the risks in active policies to another company cedes its business. The company transferring its risks is known as the cedant or ceding company.

Claims incurred: The totals for all claims paid and related claim expenses during a specific accounting period(s) plus the changes in IBNR reserve for the same period of time.

Combined ratio: A measure of total expenses (claims and administration) in relation to net premiums earned as determined in accordance with GAAP. If this ratio is below 100%, there was a profit from underwriting activities, while over 100% represents a loss from underwriting.

Facility Association: Participation in automobile risk-sharing pools whereby P&C insurance companies share resources to provide insurance coverage to high-risk individuals or businesses.

GAAP: Generally accepted accounting principles. These are defined in the handbook prepared by the Canadian Institute of Chartered Accountants.

Gross premiums written (GPW): Total premiums, net of cancellations, on insurance underwritten during a specified period of time before deduction of reinsurance premiums ceded.

IBNR reserve: Abbreviation for "incurred but not reported." A reserve that estimates claims that have been incurred by a policyholder but not reported to the insurance company. It also includes unknown future developments on claims that have been reported.

Loss ratio (Claims ratio): Claims incurred net of reinsurance expressed as a percentage of net premiums earned for a specified period of time.

Minimum Capital Test (MCT): A solvency ratio used by regulators to assess a company's financial strength. This ratio measures capital requirements in relation to the degree of risk undertaken by a particular company. The minimum amount required by this ratio, as determined by the regulators, is 1.5 or 150% of capital available over capital required.

Net premiums earned (NPE): The portion of net premiums written that is recognized for accounting purposes as revenue during a period.

Net premiums written (NPW): Gross premiums written for a given period of time less premiums ceded to reinsurers during such period.

Net risk ratio (NRR): A ratio of net premiums written to equity. This ratio indicates the ability of a company's financial resources to withstand adverse underwriting results. The regulatory guideline is a ratio of 3.0 or lower.

Premium: The dollars that a policyholder pays today to insure a specific set of risk(s). In theory, this reflects the current value of the claims that a pool of policyholders can be expected to make in the future, as well as the costs of administering those potential claims.

Premium tax: A tax collected by insurance companies from policyholders and paid to various provincial and territorial governments. It is calculated as a percentage of gross premiums written.

Property insurance: One of the three main groups of insurance products (the others are life insurance and casualty insurance). This type of insurance provides coverage to a policyholder for an insurable interest in tangible property for property loss, damage or loss of use.

Prudent person: A common law standard against which those investing the money of others are judged against.

Redundancy & Deficiency: Claims reserves are constantly re-evaluated. An increase in a reserve from the original estimate is a deficiency, while a decrease to the original reserve is called a redundancy.

Reinsurance: In its simplest form, insurance for an insurance company. It is an agreement where the reinsurer agrees to indemnify the ceding company against all or a portion of the insurance or reinsurance risk underwritten by the ceding company under one or more policies.

Reinsurer: A company that purchases the cedant risk in the reinsurance contract.

Underwriting: The process of reviewing applications submitted for insurance coverage, deciding whether to insure all or part of the coverage requested and calculating the related premium for the coverage offered.

Underwriting capacity: The maximum amount that a company can underwrite. It is based on retained earnings and investment capital held by the company. Using reinsurance allows a company to increase its underwriting capacity as it reduces the company's exposure to particular risks.

Underwriting profit/loss: The difference between net premiums earned and the sum of net claims incurred, commissions, premium taxes and all general and administrative expenses.

Unearned premiums: The difference between net premiums written and net premiums earned. It reflects the net premiums written for that portion of the term of its insurance policies that are deferred to subsequent accounting periods.

BOARD OF *directors*

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IN *memoriam*

Linda Appell, a Clerk 2 at the Yorkton Claims Centre, was a dedicated and upbeat employee who made many friends over the almost 10 years she spent with SGI.

She was an avid volunteer and animal lover, who also enjoyed fishing, gardening, jigsaw puzzles and combing garage sales and flea markets for hidden treasures.

Linda's colleagues remember her bubbly personality and contagious laugh, and her ability to always find the funny things in any situation and keep everyone positive.

Linda passed away on Feb. 3, 2010.

Mary-Lou Selinger, a Clerk 4 in Driver Records at SGI's head office in Regina, was appreciated by her co-workers for her cheerful personality and willingness to help others.

Mary-Lou loved knitting and crocheting, and happily gave her creations to her friends. She was especially famous for her chocolate cake, which was in high demand at every department event.

Mary-Lou's co-workers remember her dedication to her children, grandchildren and beloved pet, and how much she enjoyed the motorcycle trips she shared with her husband.

Mary-Lou worked at SGI for more than 18 years. She passed away on Nov. 7, 2010.

